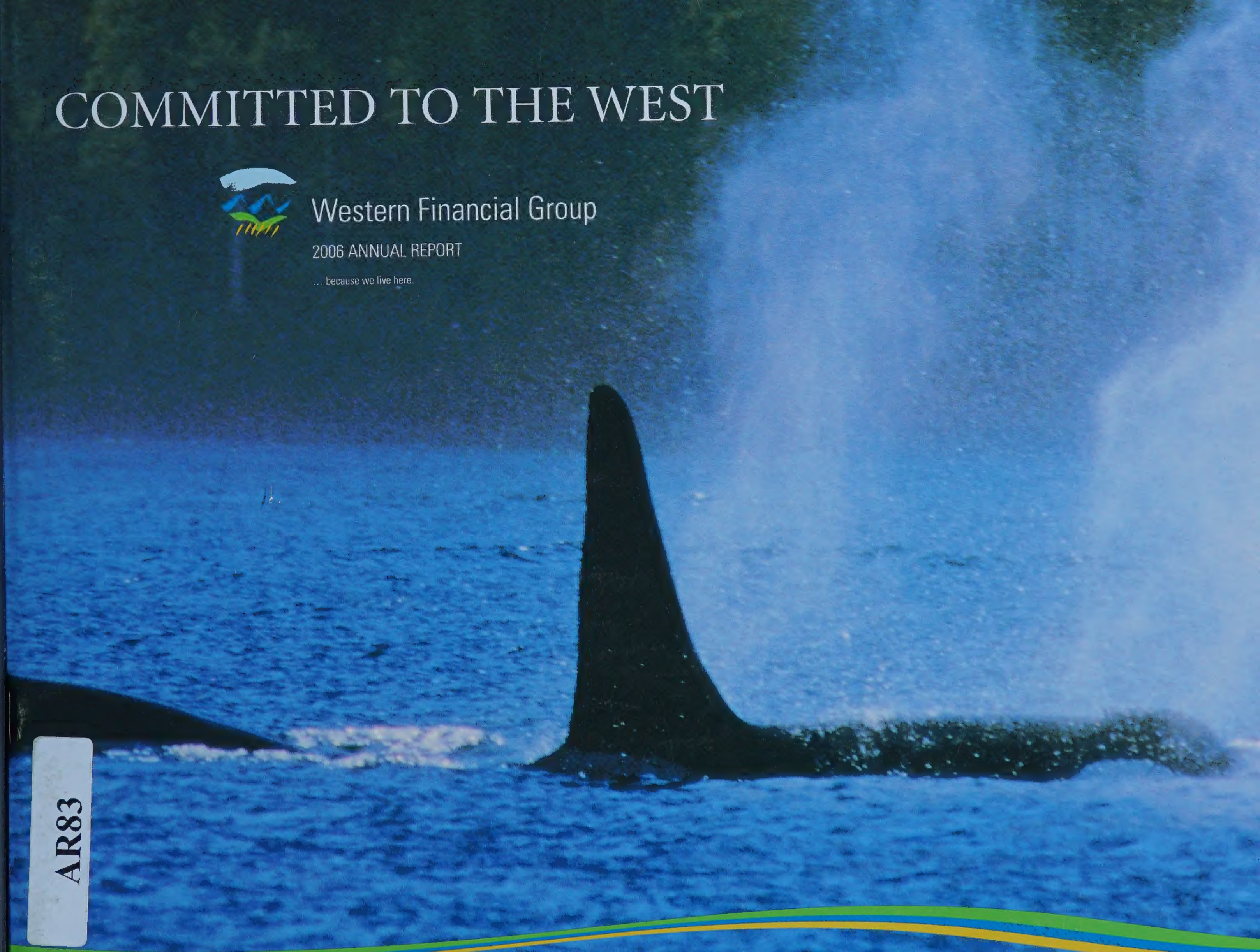
COMMITTED TO THE WEST

Western Financial Group

2006 ANNUAL REPORT

... because we live here.

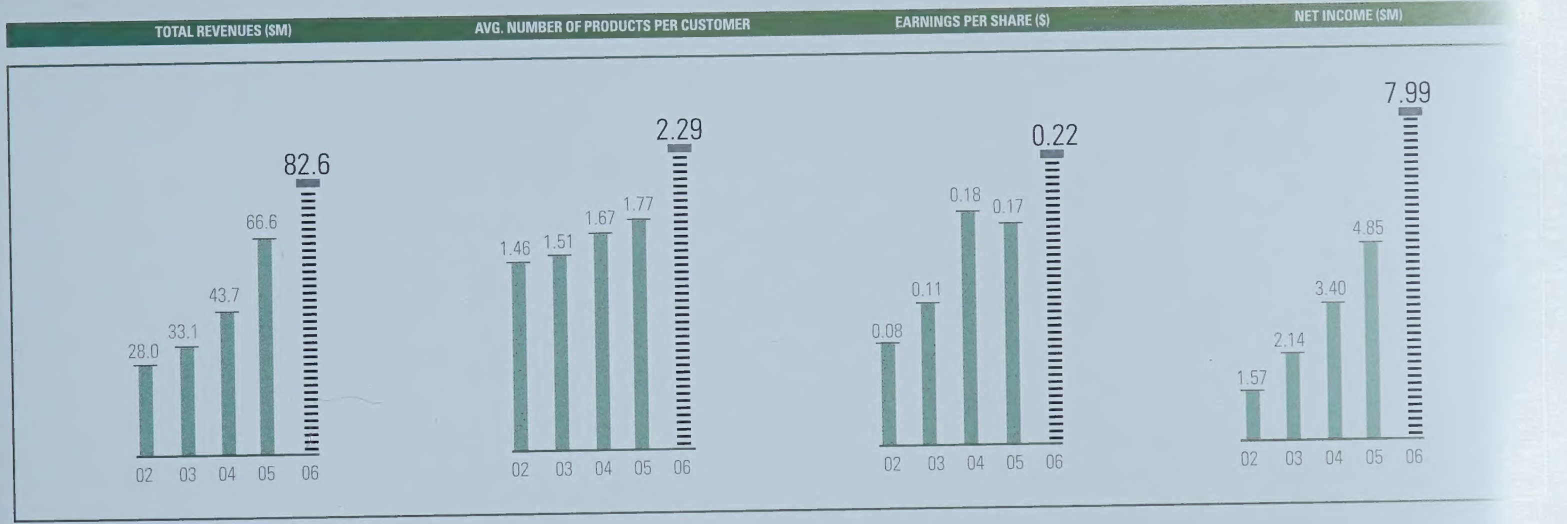


CONTENTS

Western Financial Group

WFG Agency Network • Bank West • Western Life • Customer Services

Some of our staff from Pay Plan, Accounting, Financial Services, Insurance Solutions, Reception, Training, Communications and WFG Agency Network.


TOTAL REVENUES ($M)
28.0 33.1 43.7 66.6 82.6
02 03 04 05 06
AVG. NUMBER OF PRODUCTS PER CUSTOMER
1.46 1.51 1.67 1.77 2.29
02 03 04 05 06
EARNINGS PER SHARE ($)
0.08 0.11 0.18 0.17 0.22
02 03 04 05 06
NET INCOME ($M)
1.57 2.14 3.40 4.85 7.99
02 03 04 05 06

2006 achievements

Revenue Increase 2006	**24%**	Revenue Increase 2005	**52.5%**
Net Income Increase 2006	**64.7%**	Net Income Increase 2005	**43%**
Number of full-time staff 2006	**687**	Number of full-time staff 2005	**606**
Total gross revenues 2006	**82.6M**	Total gross revenues 2005	**66.6M**
Debt to equity ratio 2006	**19%**	Debt to equity ratio 2005	**59%**

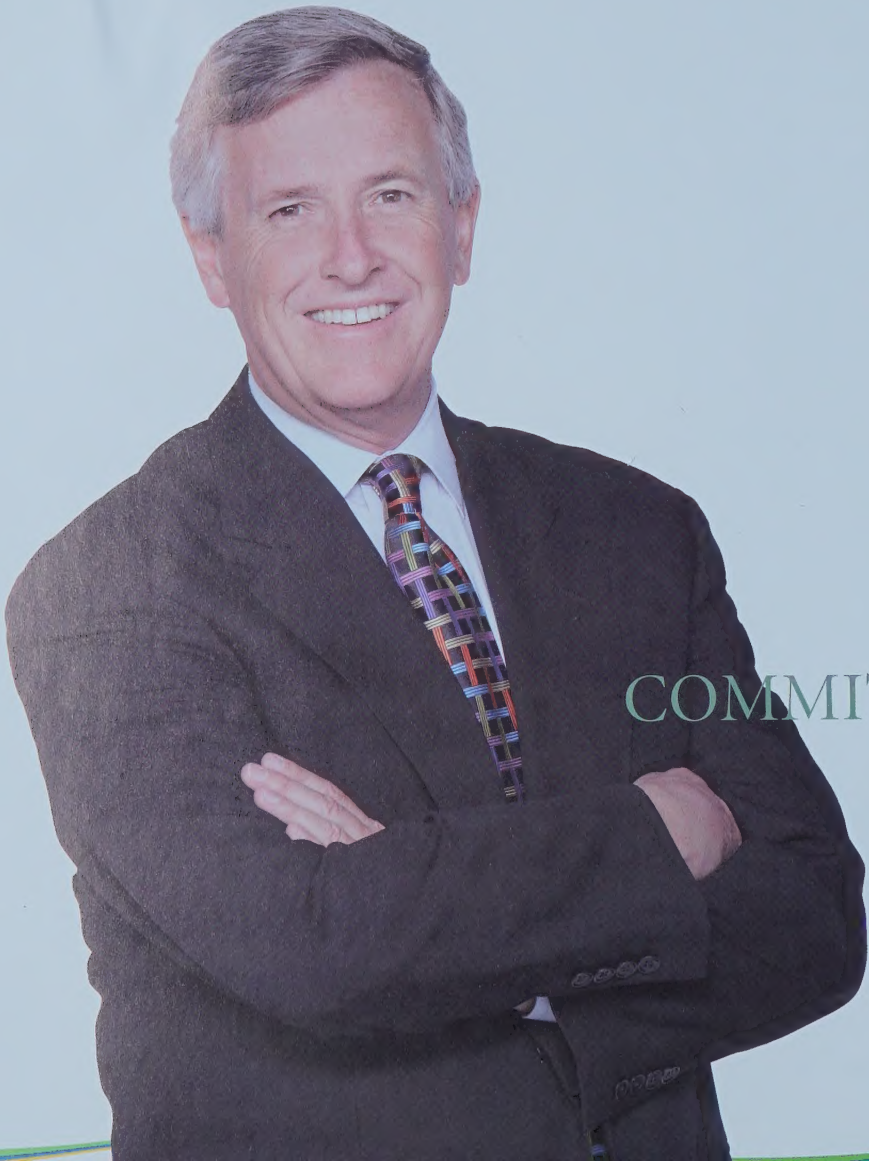
FINANCIAL HIGHLIGHTS

($ million except per share accounts)

	2006	2005
WFG AGENCY NETWORK		
Commissions and other customer revenue	$ 46,674	$ 41,515
Operating income	14,308	14,376
BANK WEST		
Interest and investment income	8,214	4,284
Net interest and investment income	2,236	959
Operating income (loss)	218	(894)
WESTERN LIFE ASSURANCE		
Premium and investment income	25,686	18,741
Operating income	2,581	2,372
OVERALL		
Revenue	82,643	66,641
Net income	7,988	4,849
Earnings per share		
Basic	0.22	0.17
Fully diluted	0.20	0.15

KEY BUSINESS DRIVERS

	2006	2005
WFG Agency Network same store revenue (% change over 2005)	6.9%	6.8%
Products per customer account (PPCA)	2.29	1.77
Return on common equity (ROE)	8.4%	8.1%



COMMITTED TO THE WEST

chairman's message

"Principles of truthfulness, fairness, value and loyalty are woven throughout WFG. It's what we do and how we do it that reflects our commitment to the West."

Dear Fellow Share Owners:

Welcome to Western Financial Group's eleventh annual report to share owners.

On behalf of your directors, I am pleased to report on the remarkable successes achieved by our team this past year. The 51.1% increase in WFG's share price, the 29.4% improvement in EPS and the 37.6% growth in assets reflect the aspirations of our shareholders and the dedication and hard work of our leadership team, led by Scott Tannas. On behalf of the Board, I want to thank Scott, his leadership team and all of WFG's dedicated, spirited managers and employees.

Committed to the West. Yes, it's self-evident for a company that operates solely in Western Canada. But from Day One, we've built WFG with principles deeply rooted in Western Canadian qualities: Truthfulness. Fairness. Value. Loyalty. These principles guide our relationships with customers, fellow employees and share owners along with citizens and governments in the communities and provinces where we do business. These principles are woven throughout WFG, right from Boot Camp training for new employees to the posters that greet every visitor to each of our office locations throughout the West. It's what we do and how we do it that reflects our commitment to the West.

I want to thank WFG's Directors for their service to the company. They take seriously their role as advisors to management, especially on the strategic side of the company. We make a point at each meeting to discuss some aspect of WFG's strategy, including opportunities for synergy among the Agency Network, Bank West, Western Life and Jennings Capital. This unique blend of assets and operations fuel the organization's growth. So your directors are mindful of their responsibilities when they approve acquisitions, capital investments and new financings. And we hold management to a high standard of performance against budget and growth plans. We believe that good governance is a competitive advantage for WFG.

On behalf of the Board, I want to thank all of our employees from Pender Island to Winnipeg for their contribution to WFG's strong performance and to the spirit and pride of your company.

And to our fellow share owners, thank you for your ongoing support and enthusiasm for Western Financial Group.

Jim Dinning
Chairman of the Board

COMMITTED TO THE WEST

president's letter

"This is who we are. Our customers know it because small town folks are very discerning of true intentions. We are in western Canada first, last and always – because we live here, and not because it's the "hot" place to be right now."

Committed to the West. This is more than a slogan; it's the foundation of our business. We firmly believe that we can be better and more successful by concentrating our efforts in smaller communities in Western Canada, where the demographics, community dynamics and economic drivers are more or less similar. We know that customers in these areas will support a company that openly commits to be there, year in and year out, employing smart, well-trained local people to provide them with excellent products and services. This is who we are. Our customers know it because small town folks are very discerning of true intentions. We are in Western Canada first, last and always not because it's the "hot" place to be right now, but because we live here.

This unwavering commitment to our market provides us with a number of advantages – amazing customer loyalty, a stable and engaged employee base, significant barriers for entry by new competition and, most importantly, the ability to think, act and build for the long term. Being blessed with these advantages also inspires us to be the best we can be – both in our marketplace and when being measured by our peers across the country.

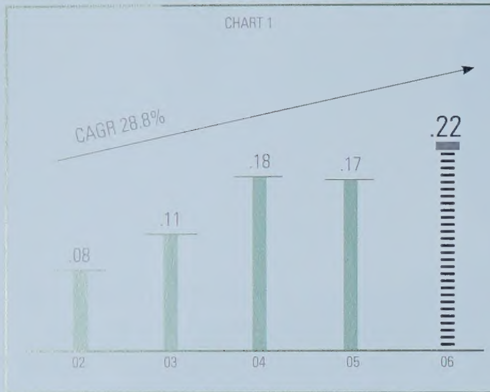
In the pages that follow, we detail a number of examples of where our focus and commitment puts us at the forefront of our industry, and shows how we are building a business that will be increasingly difficult for others to compete with or replicate. We are particularly proud of our Best Service Guarantee which Ipsos Reid confirmed stands as the best in our industry. We point to the exponential growth in our Bank West consumer loan portfolio where our RV / Boat and Auto Finance department provides extended hours and an unprecedented guaranteed turnaround time on credit decisions. Our customers tell us they have never received service like this from a bank. There are a number of other opportunities that we plan to exploit in the future, where we can play a unique and valuable role in a business or consumer sector in our marketplace. All of this is born out of our absolute commitment to building our business here in the West, and serving our customers with long-term relationships in mind.

2006 HIGHLIGHTS

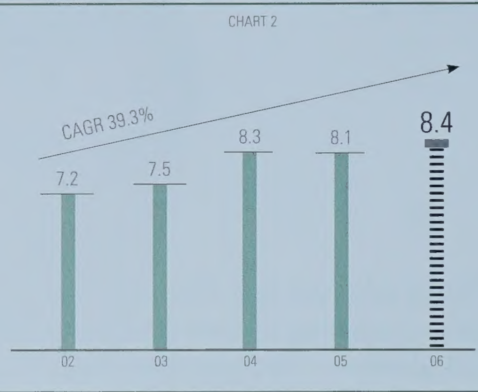
We made good progress this past year in a number of critical areas. Here are what I believe are the three most important achievements:

- **29.4 % improvement in Earnings per Share** – We said this was the year that we would move this number up to the next level, and we did. In fact, we over achieved our target EPS thanks to some help from a one-time tax savings. However, even without the tax break, we improved EPS from 17 cents to 21 cents, which still exceeded our goal.
- **Western Life's record growth and profitability** – Bruce Ratzlaff and his team are on a roll. Their 2006 net income of $2.1 million is the largest profit in their 20 year history. Their top line grew year over year by 16.4% and the momentum continues. Before we acquired Western Life in 2005, its sales and profitability had been fairly static. Since acquisition, Western Life's 35 hard-working employees have re-energized their company and are an inspiration to all of us at Western Financial Group. What is really exciting, however is the huge potential for increasing sales to the Network's customers. We expect this is where the biggest gain in our cross-selling success will come from in the next few years.
- **The Network's continued organic growth**. Many think of us as a growth by acquisition company – that only tells half the story. In every year since we began measuring in 2002 we have recorded organic growth from same store sales and same store customer counts. Again 2006 was a big success by this measurement, and Lana Wood and the 552 staff of the Network can be proud of the accomplishment. Same store sales were up by 6.9%, which is a healthy sign when we look at the numbers posted by our peers. But the real success story is the growth in same store customer count of 4.5% which tells us we are gaining market share.

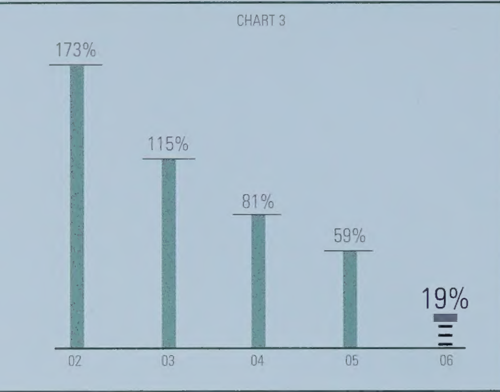
EARNINGS PER SHARE (EPS)



RETURN ON EQUITY (ROE)



DEBT TO EQUITY RATIO



There were many other significant achievements in this past year – Bank West's first annual pre-tax profit, Jennings Capital's continuing success in Canada and abroad, the skillful planning and execution of our acquisition strategy which culminated in the largest equity issue in our history and the announcement of significant expansion in British Columbia – and, of course, the satisfying increase in our stock price. All of this provides us with tremendous sense of accomplishment and the inspiration to achieve more in 2007.

2006 PROGRESS REVIEW

WFG Agency Network – As mentioned above, the Network is growing, both organically and through our continuing acquisition program which targets independent insurance brokerage offices across the West. This past year, we added 5 new branches to the system, and welcomed 40 new employees and 14,000 new customers. In addition, we laid the groundwork for a major acquisition, Sawchuk Group, which was completed in early 2007. I am in awe of the resilience and strength of our people at the front lines of service in our company. Last year, they took on a significant number of new products, procedures and policies, and continued to build market share, while serving customers and distinguishing themselves as the best in our industry.

Bank West – The Bank posted a pre-tax profit, which is no small achievement. There was no precedent for us to follow as we built Bank West. The team just worked hard until they found the right combination of people, products and services that customers responded to. In the past two years, the momentum of the Bank has been driven by the consumer finance business in RV and automotive. However, in 2006, we identified an opportunity in recreational property fractional finance, and over the past year Bank West has rapidly developed a reputation as experts in this field. We have learned that our edge in the banking business comes from being able to watch, listen and respond quickly and innovatively – something that huge organizations can't do. Bank West CEO Doug Foster has announced his retirement effective May 31, and as you read this report, we are in the process of finding the next leader for Bank West. This new leader will inherit a team of professionals determined to move Bank West to new heights through expanding and exploiting the niche opportunities that are so evident in our marketplace. An exciting new era is dawning for Bank West.

Western Life Assurance Company – We have just completed our first full year of ownership of Western Life, and we are already seeing the positive impact of cross-sales and new market development. Western Life's product mix is a perfect fit with our Network customer base. The challenge will be to find the right processes to deliver the products to our customers in order to maximize success. The introduction of a unique disability product to Network small business and farm customers in 2006 is one example of the knitting together of product flow among our business units. Beyond efforts to develop within our own customer base, Western Life grew its specialty and legacy business lines dramatically – a demonstration of its excellence in the wider Canadian life insurance marketplace. As with Bank West, Western Life competes in a market dominated by giant institutions, and its success comes from being nimble and opportunistic.

STRATEGIC PARTNERSHIP PORTFOLIO

Western Financial Group has a number of important partnerships where we are building value and synergy for the future while owning a portion of the enterprise today. In the insurance brokerage business partnerships, we watched Harvard Western Ventures (operations in and around Regina, Saskatchewan) and Falkins Insurance (10 offices in southeastern B.C.) and North Country Insurance (seven offices in northwest B.C.) post excellent results. We also added a new partnership – HED of Winnipeg, one of the largest and most highly regarded insurance firms in the West. Our Investment business partnership with Jennings Capital continues to be a substantial financial success. In 2006, Jennings had another record year, with all areas of the company growing revenue and profit. It is clear to us that Jennings is becoming much stronger organizationally as it grows – a key to sustaining success. Today, Jennings is led by a management team of diverse talents, and is supported by dozens of shareholder-employees who share a common vision for the company.

FINANCIAL RESULTS

All of the above accomplishments would be less impressive if they weren't accompanied by an increase in Western Financial Group's profit. We still have a long way to go, and do not expect to see the full

financial power of what we are building until somewhere around 2010, when Bank West starts to mature and the network branch acquisition program achieves its goals. In the meantime, we will continue to focus on growing our revenues and our profits. Over the past 10 years, we have worked to maintain a balance between strategic, operational and financial goals, and objectives. I'm happy to report that in 2006, we delivered.

2007 PRIORITIES

We have much to do in 2007. The WFG Network will experience a very busy year in terms of acquisition and integration. This will test our systems and people, but we believe in their strength and commitment to completing the acquisition era of our company. Our goal is 200 locations by end of 2010. We expect to cross the 100 location mark this year. Bank West is budgeted to grow its loan book past $200 million this year and is determined to find new niches for success in addition to building on its already successful programs. Western Life has a number of large-scale sales initiatives aimed at both Network customers and the broader Canadian marketplace. Overall, here are the top priorities for 2007:

- Move towards our 2010 goal of 200 offices by completing between 20 and 25 acquisitions in 2007
- Strengthen internal Human Resources and Communication departments
- Launch company-wide reporting control systems
- Take WFG brand to the next level of market awareness
- Identify and address critical five year horizon issues

In closing I would like to thank all members of the Western Financial Group family – customers, employees and shareholders – for your support and encouragement this past year. Together, we are building something special and successful.

Scott A. Tannas
President and CEO

KEEPING OUR WORD

2006 OBJECTIVE	2006 PERFORMANCE
Climb the next step in financial performance. We are budgeting for a noticable growth in EPS and ROE.	Our EPS increased to $0.22 which exceeded our target. This was partly due to a one-time tax benefit, effectively putting our growth ahead of our targeted $0.20. Our EPS was up 29%. ROE grew from 8.1% to 8.4%.
Increase rate of growth in the number of products sold per customer account. We are launching a number of large-scale cross-sales campaigns, particularly targeted at Western Life products.	Our products per customer account increased from 1.77 to 2.29. We also achieved a healthy increase in same store sales.

COMMITTED TO INSURANCE

property and casualty insurance

Western Financial Group Agency Network operates a retail network of community insurance offices, which, in conjunction with our affiliates, includes 79 locations in the four western provinces of British Columbia, Alberta, Saskatchewan and Manitoba. While we are primarily in the property and casualty insurance business, we strive to continually expand our products and services to become a full-service distributor of financial products in western Canada. As the largest broker network in western Canada, we serve over 350,000 customers with services that include:

- Insurance – auto, home, farm, business, specialty insurance, life products and group benefits. (Many of our locations also issue provincial auto licensing.)
- Investments – RESPs, RRSPs, financial planning, and stocks and bonds through Jennings Capital.
- Agency Banking – GICs and term deposits, personal and commercial mortgages, leases and loans.

Far Left:
Lana Wood (seated), President of WFG Agency Networks, and managers from BC, Alberta and Saskatchewan

Right:
Staff from our Barker Agencies office in Brandon, Manitoba

> "We strive to continue to expand our products and services, to become a full service distributor of financial products in western Canada"

As our network expands, we further focus on revenue enhancement at each of our locations, by bringing more products and services on board for both new acquisitions and our mature network offices, by concentrating on key front-line sales and service, and increasingly relying on centralized functions such as IT, marketing and communications, accounting and human resources which are supplied through our corporate head office.

HIGHLIGHTS OF 2006

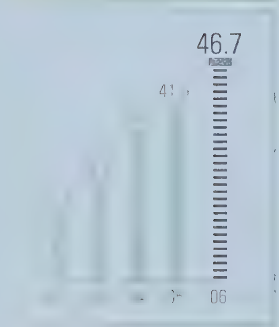
The past year saw a significant step forward in the development of the organization and management of the network and its owned offices. In preparation for additional growth in acquisitions, we recognized that we needed to establish a firm base of policies and procedures as well as a network that was able to expand with management controls in place. We addressed the challenges of the integration of additional successful, previously independent locations into our network and the transition of these offices into becoming part of a single cohesive team.

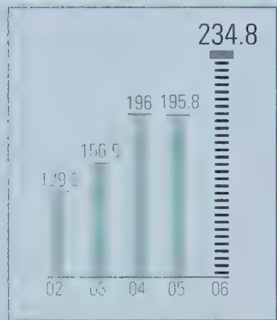
Our first steps were to complete the integration of offices that had been acquired but still had operational or technical issues to resolve. This process was managed through our Regional Vice Presidents. We instituted a new set of Personal Lines policies and procedures to bring uniformity to our operations, to the point where an employee from any office in the system will be able to function competently in any other office. This process also included cataloguing and placing all information in one central information system, our new intranet (appropriately named Qwest).

A key component for both sales and service lies in the value proposition we offer to every customer, as stated in our company Guarantee of Value. Therefore, one of our goals was to document the processes that support our Guarantee of Value. We launched this initiative early in 2006, offering on-site and remote training to

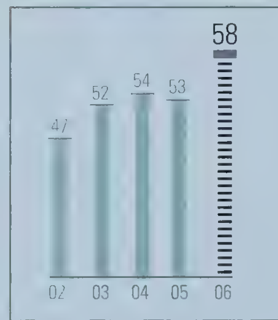
QUICK STATS

Total customers 2006 (incl. affiliates)	350,000
Total customers 2005 (incl. affiliates)	220,000
Total network full time staff 2006	552
Total network full time staff 2005	432
Number owned offices 2006	58
Number owned offices 2005	53
Number affiliated offices 2006	21
Number affiliated offices 2005	14
Growth in same store customer count 2006	4.5%
Growth in same store customer count 2005	2.8%
Est. number weekly transactions 2006	143,000
Est. number weekly transactions 2005	102,000

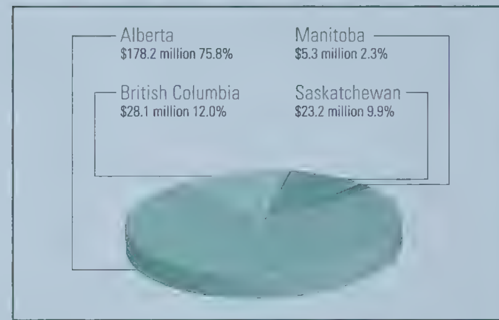




NETWORK GROWTH BY OFFICE



INSURANCE SALES BY PROVINCE



support the offices in integrating the processes with their staff. In June, we began an on-going review of progress in each branch, as accountability was also a focus for development in 2006. We also instituted our first auditing mechanism, which will be expanded in 2007. Through all these developments, we realized our operations goal to put in place consistent procedures and controls.

Our senior team members spent much of their time on the road in their regions, reviewing quarterly branch results, identifying areas of success and those that required improvement, moving branches toward the completion of their goals, objectives and tasks. Budgets were reviewed on a monthly basis. Our team also focused on bringing new products to local markets and on cross-selling financial service products.

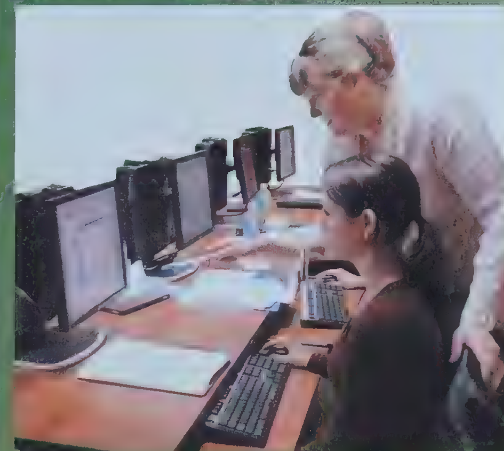
We implemented a program for staff development through consistent performance evaluations in each office; in conjunction with our Human Resources department we will be expanding this to include career development and educational goals for all employees. We have initiated the development of on-going training for managers, as well as the first steps to fast track our future leaders to prepare them for advancement opportunities available through succession or new acquisitions.

NETWORK OVERALL PERFORMANCE

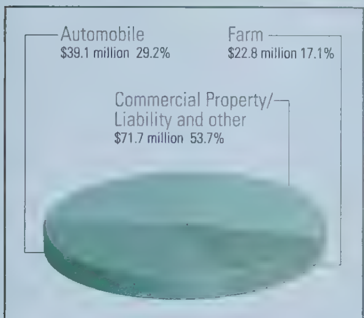
Consistent growth in both new sales and retention has continued into 2006. We experienced growth in Commercial Lines products, which grew our overall book of business between commercial and personal insurance of 57% and 43%. We grew organically, with our policy count up overall by 4.5%, while important key indicators of same-store sales and products per customer rose by 6.9% and 29.4% respectively.

We also grew through acquisition. Our owned offices increased from 53 in 2005 to 74 in January 2007. As we traditionally close many

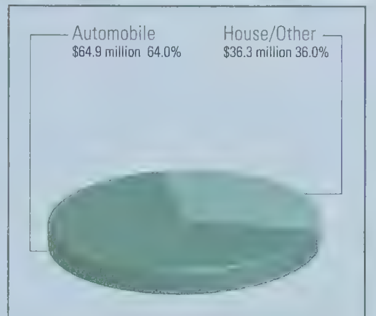
We continue to expand and improve our Boot Camp, a two day training session attended by every new staff member. Boot Camp is held in our head office, and is an introduction to the company, our culture and basic training on our systems.



COMMERCIAL INSURANCE SALES



PERSONAL INSURANCE SALES



transactions just after the end of the year, we often do not see the results of our work until early January. Not surprisingly, our premium sales were up by 19.9% to $234.8 million, and so were our revenues, which increased to $47 million in 2006 from $42 million in 2005.

Overall we are particularly pleased that we succeeded at accomplishing two difficult goals at the same time – one operational and the other growth. While we have implemented operational changes at the the front line, some of which effected such basic things as daily policy and procedures, we also succeeded in raising our same store and organic sales by 6.9%. No small feat in what was a soft insurance market over 2006.

SIMPLE MESSAGE, UNIFORMLY DELIVERED

In 2007 we are moving from each office handling its own advertising locally, to centrally-driven advertising through our Corporate Communications department. Newspaper advertising has been developed in conjunction with our advertising company and launched to all offices for direct placement in local papers. Radio advertising is provided directly to stations in larger centres and areas that offer the best potential for growth. We also rely on our annual Employee Convention to deliver a simple message uniformly. In 2006 Scott Tannas and Lana Wood, along with senior staff from Bank West and Western Life, took to air and road to speak to all of our offices in the four provinces. Half of the staff from each location were invited to attend one of nine regional presentations, so that in a two year period each staff member will attend and have the opportunity to listen, and speak to the President of WFG and Agency Network on a one-to-one basis.

We also continue to expand and improve our Boot Camp, a two day training session attended by every new staff member. Held in our head office, Boot Camp is an introduction to the company, our culture and basic training on our systems, particularly The Agency Manager system used in each location.

QUICK STATS

Western Financial Group usage

Qwest intranet	
Unique users per day	495
Pages visited per user per day (average)	10
Number of servers in network	61
Number of PCs in network	615
Number of printers in network	170
Number of users	687

HelpDesk support	
Number of core applications supported (average)	25
Number of support items per week	785

COMMITTED TO THE BEST SERVICE

"The results show that Western Financial Group has the best service guarantee and Guarantee of Value in the industry."

From the perspectives of customer retention and new sales, one of the most important propositions to place in our customers' minds is the value we bring to the buying transaction. By identifying exactly how our customers expect us to add value, providing the solution, delivering the result and communicating the process, we will continue to differentiate our products and services from those of our competitors.

In 2003 Scott Tannas visited offices in Alberta and Saskatchewan in an effort to clearly identify the features in our value proposition for customers. These were discussed at each office and the results drawn up in our Guarantee of Value (GOV), a written commitment to all Western Financial Group customers buying a product or service that, in addition to receiving a suitable quality product, the customer receives significant added value from us. Our GOV states that we will provide real, measurable service standards:

- A competitive price through the widest choice of insurance products in your area
- Regularly scheduled review of your policy
- Fairness Guarantee on your claims settlement
- Smart, well trained people who care.

Through our Communications department, we tested the GOV on our customers, primarily in focus groups carried out in January 2006. In June and July 2006, we further tested our GOV with an extensive survey commissioned through Ipsos Reid to determine consumer attitudes, and the importance and validity of our GOV. As part of the survey, a choice of 12 "value propositions" were put before a sample of 1,272 residents in Western Canada, who were split evenly between male and female, urban and rural and who all had at least one policy through an insurance broker. The results were an overwhelming endorsement of the three main principals in our GOV, word for word as we offered them. It was significant that 97% of respondents also wanted the ability to hold their insurance broker accountable to their statements, and further research showed that only a handful of larger brokers in Western Canada issue a written value proposition.

Undeniably, Western Financial Group has the best Service Guarantee and Guarantee of Value in the industry. That fact will be the focus in 2007 of a newspaper and radio campaign across the West to communicate to customers and potential customers that when they deal with us, they receive the best value offered in our industry.

Full results of the Ipsos Reid survey can be reviewed in detail at www.ipsos-reid.com.

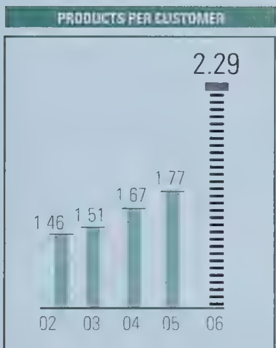
As part of the network's commitment to consumers in the West and to expanding our offering of quality products and services, a number of new insurance companies were added and development of unique and innovative products were deployed in 2006. These included TravelMate, an exclusive emergency medical policy offered through Western Life to customers traveling outside their home province. We also completed an exclusive endorsement to commercial policies, the WFG Owners' Endorsement, and adds Critical Illness and Accidental Death coverage to those with their business policies through our offices. Other programs produced by our offices or through WFG Insurance Solutions, our in-house team of risk specialists, include an Agrologist's Errors and Omissions policy, Child Care Facility Program, a five-year RV policy, and a unique Intense Livestock Program – including our Farm Safe Risk Management program.

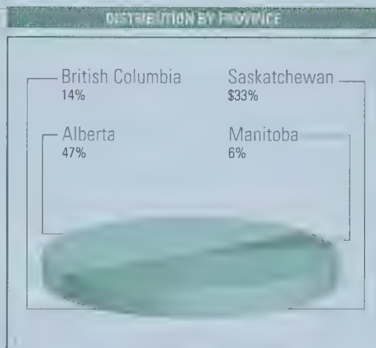
Gordie Howe is ou

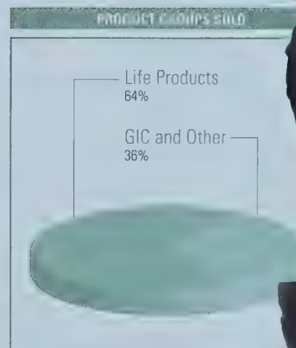
COMMITTED TO FINANCIAL SERVICES

"Our spokesperson is Gordie Howe, whose hard work and true grit are legendary. Gordie will be featured in newspaper ads, radio spots, posters and rink boards as part of our GIC campaign. And Gordie is now a customer."

One of the core indicators of growth at WFG is our tracking of products per customer account and, in particular, the level of our success in selling products and services that are complimentary to our core property and casualty insurance. In our 2006 customer research, we found that our customers were generally more than prepared to try other products and services offered through our local offices, but were often not aware of the additional financial services we offered. We determined that part of our advertising and marketing for 2006/2007 would focus on selling a product outside our core business to reinforce the concept that our offices offer more than insurance products. As the most commonly recognizable product is the Guaranteed Investment Certificate, or GIC, it became the focal point of the initiative. And who better to







be our spokesperson than Gordie Howe, whose hard work and true grit are legendary! Gordie will be featured in newspaper and radio advertising, life-size cut outs, posters and rink boards as part of the GIC campaign. And Gordie is now also a customer.

To back up Gordie, we undertook to make a single and unique offer, much like the clear differentiation we established in our Best Service Guarantee. Our offices act in a similar manner in the sale of GICs as in the sale of insurance products – we are a "broker", in this case for over 30 financial institutions that would like our customers' business. To differentiate ourselves and offer our customer a simple reason to see us first, in our advertising we promote that we will match or beat the posted rate of any other bank or credit union in town.

We expect this advertising campaign to expand how our customer sees the services we offer.

Financial Services are being integrated into our offices in a number of ways, depending on the size and location of the agency, size of the market and product mix within the agency.

For larger locations, the ideal integration option is to have a dedicated Financial Services account executives. For smaller or mid-sized offices, we look at alternatives to maximize success. For example, where geography and size of two or more locations combine favourably, it is possible for the Financial Services account executives to work for the offices on a shared basis. Several offices are also having success with dual-licensed staff members. This has worked well for cross-sales of commercial and personal lines.

"As gratified as we are with our growth in our creditor insurance lines, we are equally pleased with organic growth trends in our more traditional lines."

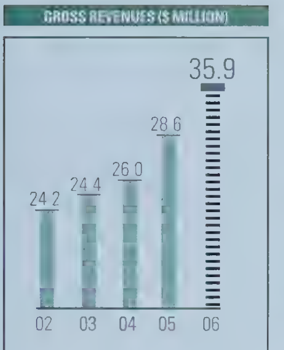
COMMITTED TO INSURANCE

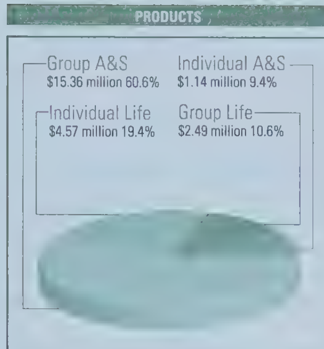
western life assurance

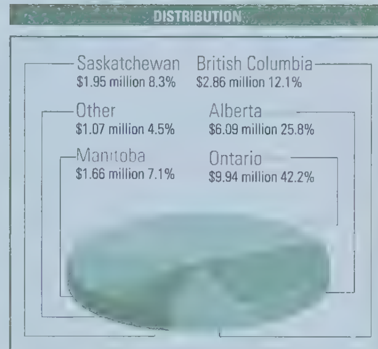
For Western Life Assurance Company, 2006 was a year of growth. Based on previous years, market and product development work, we were positioned to capitalize on opportunities in several distribution channels and harvest good results from our efforts.

Our gross premium growth was outstanding, growing to $33.1 million a year from $25.9 million, an annual increase of 28.0%. This top-line growth rate is very gratifying, as we had set our targets on growth and do so primarily through business development efforts rather than acquisition-based growth.

Western Life employs a multi-product, multi-channel strategy which produces revenue streams spanning the entire country of Canada. Among our major product lines, are Individual Insurance products (Term, Whole Life, Health), Employee Group Health products targeted at the small employer group markets, Group Accident & Sickness business deployed in a variety of high yielding niche channels, and Group Creditor business with broad-based coverage lines. Our individual lines are also supported by our industry leading *@pprove* technology platform which processes individual insurance applications more quickly and efficiently than our peers. Our channel development activity is designed to identify niche opportunities that offer attractive volume and, more importantly, high per unit margins.







Product enhancement strategies are almost constant, as we believe a nimble response to opportunity is a core competency and a key asset of our company. Our focus on growth will not waiver in the coming years as we seek to add scale to our operations.

The core driver of top-line growth was our creditor insurance lines, where we have established a solid footprint with a seasoned distributor of RV creditor insurance. Supplementing this with product design changes, we developed several other creditor insurance revenue streams through creative product design and application.

As gratified as we are with our growth in our creditor insurance lines, we are equally pleased with organic growth trends in our more traditional lines. Our individual life insurance policy count grew by 7.4% and our Group Health account count grew by 5.5%, both representing positive trends in these traditional lines.

In addition to measures of growth in absolute terms, we also maintain a watch on several efficiency targets, as our objective is to grow top and bottom line through solid business disciplines, while making gains through economies of scale. In 2006, we achieved excellent results in several efficiency measures including increasing our revenue per employee by 25.4%. Net income grew by 40.4% per full-time employee. Further, efficiency measures of total revenue / assets grew by 9.0%, indicating that our overall premium growth has been achieved with modest capital strain. These efficiency growth results are important as we strive for revenue growth while keeping our eye on deployment of capital and general expenses.

In addition to a focus on growth, we also aim to offer solid financial security to our policyholders, Western Financial Group and other stakeholders. Our objective is to consistently add to the financial strength of Western Life. Several measures are testament to our success in 2006, with our MCCSR (Minimum Continuing Capital Surplus Requirement) ratio growing to 268% at the end of 2006 from 260% at the end of 2005. To achieve an increase in our MCCSR, while growing Net Premium by 18.3%, is gratifying in that by industry standards we have maintained a strong ratio while growing rapidly. ROE comes in at 11.5% – also a result reflecting strong growth in our operating fundamentals.

We intended to grow in 2006 and the results indicate we've accomplished that objective while maintaining strength, gaining efficiency within our operations, and positioning the company for more of the same in the years ahead. Our team is strong, experienced and ready to continue positive contributions to our future.

QUICK STATS

Individual life insurance in force 2006	2,098,862,000
Individual life insurance in force 2005	1,804,596,000

New *@pprove* life policies sold by networks 2006	472
New *@pprove* life policies sold by networks 2005	217

Claims processed in	2005	2006
Group health and dental	133,587	139,400
Life insurance	57	165
Disability insurance	231	243
Critical illness	72	94

"The bank has made great strides this year in growing both volumes and margin and from that achieving a profitable pre-tax contribution for the group for the first time. We now have a great base to further build on."

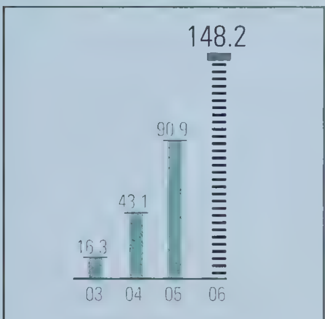
COMMITTED TO BANKING

Bank West is a Schedule 1 chartered bank with its head office in High River, Alberta. The bank provides a diversified product offering of personal term loans; residential, farm, and commercial mortgages; commercial term loans and leases tied primarily to equipment financing; financing of insurance premiums for customers of our affiliated group of companies (Premium Financing); and retail Dealer Financing to purchasers of automobiles and marine, and recreational vehicles.

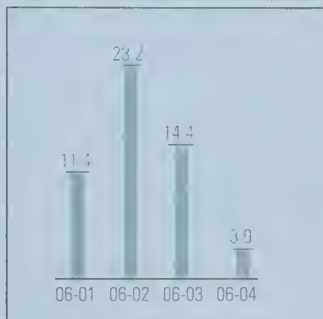
Bank West is not a traditional retail bank. We do not offer branch banking services such as personal and business accounts, or lines of credit. We are term lending focused and the majority of our loans and mortgages are sourced through dealer and broker relationships including the WFG Agency Network. Similarly, the bank obtains its deposits through GIC deposit brokers, which again includes the WFG Agency Network.

One of our main niches has been in dealership financing, building strong ties with customers.

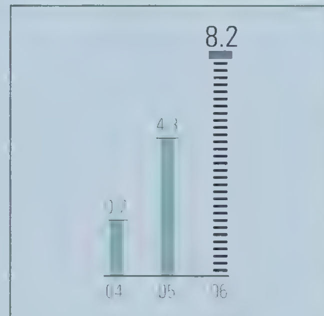
LOAN PORTFOLIO ($ MILLION)



QUARTERLY LOAN GROWTH ($ MILLION)



GROSS INTEREST INCOME BEFORE PROVISIONS ($M)



QUICK STATS

Number of full time employees 2006	19
Number of full time employees 2005	13
Growth in total revenue 2006	94%
Growth in total revenue 2005	101%
Total non-interest expense growth 2006	[illegible]%
Loan portfolio growth (net) 2006 ($M)	57.9
Loan portfolio growth (net) 2005 ($M)	49.1
Loan portfolio growth (net loans) 2006	63%
Loan portfolio growth (net loans) 2005	111%
Net interest income growth 2006	134%
Net interest income growth 2005	91%
Gross impaired loans (% of equity) 2006	3.5%
Gross impaired loans (% of equity) 2005	2.2%

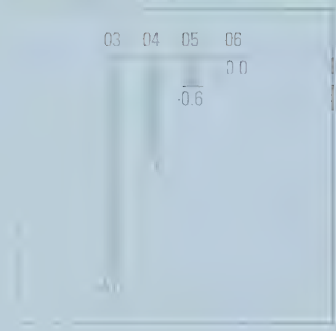
At the present time, the core focus of our lending business is Western Canada, with a particular emphasis on working with our WFG affiliated offices and their customers in the local communities where they are located. In addition to synergies realized from WFG Agency Network referrals and Premium Finance, the bank added a number of new creditor insurance products in 2006 underwritten by Western Life Assurance.

Among financial institutions, the lending environment and competition to win broker based business is intense. Success is determined by the quality of the broker relationship which in turn depends on consistent execution of customer pricing, commission structures, responsive service, timely credit approvals and streamlined funding. We have forged many strong personal relationships by working to provide these deliverables.

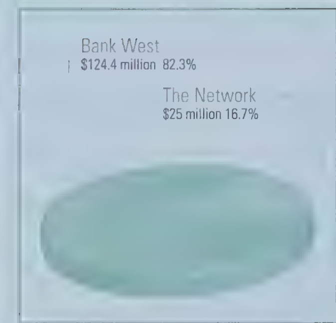
While we are very dependent on our broker networks, we have seen an increase in customers approaching us directly as we become better known in WFG communities and through referrals from our existing customers.

NET LOAN GROWTH

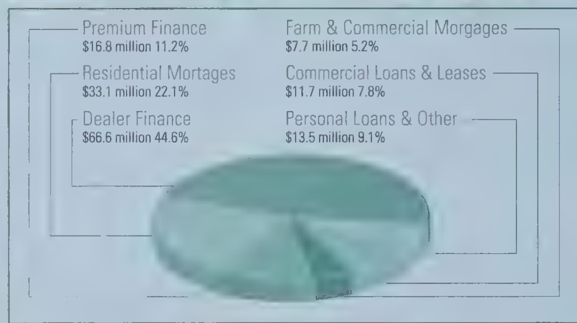
Total loans and mortgages increased by $57.9 million in 2006, a 63% increase over the same period last year. Since inception of the bank in 2003, the year over year cumulative average growth rate of total loans has been 113%. Loan growth has come predominately from the bank's dealer financing operations and in 2006, volumes from this area have grown by 121%. As well, we are encouraged by new relationships and referrals that have been established in the development of our commercial leasing and personal lending activities in 2006. Over the year, the commercial leasing book of business grew by 330%, and the personal loan portfolio by 102%. Ongoing business development



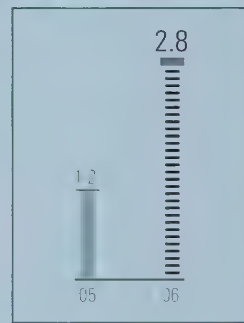
SOURCE OF LOANS



DISTRIBUTION OF LOANS



NET INTEREST INCOME ($M)



in these areas is an important component of ensuring adequate diversification of the over-all book of business, in addition to better positioning the bank for future growth.

The bank is well positioned for growth into 2007 as we closed 2006 with a strong capital position. Tier 1 capital as a percentage of risk weighted assets was 15.2% at year end.

Net interest income increased from $1.13 million in 2005 to $2.69 million in 2006, an increase of 138%. While some of this growth is attributable to loan volume increases, much of the increase is due to improvement in the net interest margin. The net interest margin (net interest income as a percentage of total average assets) improved to 2.0% in 2006 from 1.5% in 2005. The improvement in margin was the result of:

- A change in the asset allocation of the total loan portfolio, where growth in higher yielding product types including premium finance, dealer finance, leasing and personal loans was emphasized over growth in lower yielding loan types, in particular conventional residential mortgages. Approximately 12% of the total loan portfolio shifted over the year to higher yielding loans.
- Deposits as a percentage of total loans decreased to 98% at the end of 2006 from 104% at the end of 2005.

NET EARNINGS

Continued growth in loan volumes, combined with improvement in loan spreads resulted in an increase in pre-tax earnings of almost $1.1 million over 2005 results. In 2006, the bank recorded a pre-tax profit of $83,022. Due to tax treatment of previous years tax losses, the bank recorded a small after-tax loss of $52,099 in 2006, compared to an after-tax loss in 2005 of $519,738.

CREDIT QUALITY

At year end, gross impaired loans (GIL) were at 0.52% of gross loans. Specific provisions taken in 2006 amounted to $316,000 representing 0.26% of average total loans. Our allowance for credit losses (ACL) totaled $1.2 million, made up of $168,000 in specific provisions and $1.1 million of general provision. As a percentage of the ACL, GIL was 64% at year end.

COMMITTED TO CUSTOMER SERVICES

marlin travel

BROOKS	[illegible]
DRUMHELLER	[illegible], Manager
HIGH RIVER	Veronica Anderson, Regional and local Manager
OKOTOKS	[illegible]
STRATHMORE	[illegible]

[illegible]

In our British Columbia, Saskatchewan and Manitoba Insurance offices we provide provincial government vehicle licensing [illegible] British Columbia is reflected in the fact that they represent over 40% of our commission income.

[illegible] and we picked up a substantial amount of new business by offering AIRMILES on all commissionable reservations. Our travel insurance revenues enjoyed a significant 11% increase.

Travel: Most of the credit for the success of the travel business in 2006 lies with our travel employees who put many long extra hours into client vacation planning

In our British Columbia, Saskatchewan and [illegible]

COMMITTED TO OUR COMMUNITIES

On a community by community basis, our local offices contribute volunteer time and money to local charities, but we felt we could contribute more by organizing charitable donations on an overall basis. In 2001 we established the Western Communities Foundation, a not-for-profit Private Foundation. Its mission is to:

- Foster the development of community pride through sponsorship of exceptional endeavours by groups or individuals in the various communities where the company operates.
- Develop and enhance the infrastructure in these communities through public health, education and recreation.
- Assist in the export of community products, expertise and financial support to parts of Canada and the world that are lacking such benefits.

THE PROGRAMS

The Agency Matching Grant Program

In 2005 the Foundation commenced a five year Agency Matching Grant program to match up to $500 raised by local staff in support of a local community project.

The Community Infrastructure Program

In 2006 the Foundation recognized, on their own, that most local offices could not participate in assisting larger local community projects; the cost of sponsorship was often too large. We initiated a new Community Infrastructure Grant program, which provides a $5,000 grant to each of three WFG communities. A draw is conducted on a "chip" basis, where each year every office receives a chip that they can decide to put in the draw. Agencies who did not apply for this year's draw will have two "chips" in the 2007 draw, and so on, to ensure fair access to funds by worthwhile projects.

"These local professionals give of their time and special skills, and even pay their own travel costs, to bring eye care assessment and treatment benefits to needy people in such countries as Jamaica, St. Lucia, Dominica, and Costa Rica."

We also make a contribution for equipment and supplies to Canadian Vision Care in support of eye care specialists

Gordie Howe was joined briefly by another of the greatest hockey players, Bert Olmstead

Our AED Program funds the purchase of Automated External Defibrillators to resuscitate the victims of sudden cardiac arrest.

The Community Infrastructure Program awards $5,000 to major projects

Each spring we hold our annual fund-raising Support The Cause Day

Support for Canadian Vision Care Program

We make an annual contribution for equipment and supplies to Canadian Vision Care in support of eye care specialists, who normally work in Western Financial Group communities most of the year and who volunteer to work in less developed countries. These local professionals give their time and special skills, and even pay their own travel costs, to bring eye care assessment and treatment benefits to people in countries such as Jamaica, St. Lucia, Dominica, and Costa Rica.

The WCF Bursary Award Program

We launched The Western Communities Foundation Exceptional Achievement Citation and Bursary Award for a high school graduate in each community served by a Western Financial Group agency. In 2006 we awarded 36 Citation Certificates and 36 Bursary Awards.

Coronation, Alberta, was given two awards, as the recipients were twin girls who had come to Canada at an early age, learned a new culture and language, and who had succeeded in being nominated jointly by their high school.

Community Defibrillator Program

The past year was the first for our Community Defibrillator Program. It funds the purchase of Automated External Defibrillators (AED), used to resuscitate victims of sudden cardiac arrest, for location in such places as a community recreational centre, ice arena, or high school gymnasium. We also fund a two-year service management package, a glass fronted wall cabinet, and a professional instructor to train municipal staff, coaches, sports officials, volunteers and interested members of the receiving community.

In 2006 the Foundation arranged for the purchase of four AED units, one for each province served by WFG agencies and because of a special donation, four additional WFG communities received an AED in 2006.

FUNDING SOURCES

The Western Communities Foundation receives its funds in a number of ways, including direct support and contributions from Western Financial Group. Our two main fundraising events are:

Annual Charity Golf Tournament

Once a year we host a golf classic at the primary golf course in High River. Much work and much fun go into the tournament which this year featured Gordie Howe. He made sure he met and spoke to everyone, posed for photos, and signed autographs on request. We could not have made a better choice for a great man who fits our culture. Gordie made this the best tournament ever. He was even joined briefly by another of the greatest hockey players, Bert Olmstead. The other true heroes of the tournament are our participants. They are mainly from the insurance industry, and it is their support that makes much of our funding possible. While everyone contributed, our Platinum Sponsors in 2006 were AMI Autoglass, Cargill Foods, Catalyst Chartered Accountants, Economical Insurance, Greenshield, ING, Jennings Capital, Royal & SunAlliance and Simpson Executive Search.

Support The Cause Day

Each spring we hold our annual fund-raising day, a day where every one of our offices is asked to turn out and walk, bike, rollerblade or run around a pre-set track in their local communities. In reality, it supports all of our causes, which grow each year. Following the lead of Scott Tannas who pledged for every employee as a start, we received similar pledges from several senior staff, as well as generous pledges from ING, Royal & SunAlliance, AXA, SGI, Wawanesa and Jennings Capital. A record 407 employees participated in 2006.

EQUITY INVESTMENTS

Western Financial Group has entered into equity partnerships with four companies either to provide opportunities for acquisition over time, or as a strategic move to develop a specific part of our company, or as an investment that also provides a synergistic relationship. Three of these opportunities are with companies in similar industries, the insurance property and casualty broker business. One is with an investment banker with a financial brokerage arm.

Jennings Capital (JCI), is an investment banker with its head office in Calgary, and branches in Toronto and Vancouver.

Harvard Western Financial Venture owns and operates **Cooks/ISI Insurance** with offices located in Regina, and Kronau, Saskatchewan

Falkins Insurance is an insurance network of 10 offices in British Columbia, with its head office in Cranbrook.

Hayhurst Elias Dudek Inc. is a property and casualty broker with several divisions in insurance and specialty insurance and its head office in Winnipeg, Manitoba.

JENNINGS CAPITAL (JCI)

In 2002 Western Financial Group was offered an opportunity to invest in Jennings Capital Inc. (JCI), an investment banking company with its head office located in Calgary, Alberta. Since that time we have increased our position in JCI to just over 30% and are the only outside owner of the private company; the remaining ownership in the hands of JCI's own employees.

We saw JCI as a beneficial bridge as a potential supplier for our WFG Agency Network offices. The relationship that developed between our companies has been rewarding on a number of levels. We have continued to help each other build our companies. JCI's Chairman Rob Jennings continuing to make a major contribution to WFG as one of our original Directors, and WFG has two officers on JCI's Board. We continue to realize excellent returns on our investment in JCI, which had another outstanding year in 2006. The synergies we anticipated have developed into a business relationship where JCI offers broker services in stocks, bonds and financial services to WFG Agency Network clients through its retail division.

Based in Calgary and with offices in Toronto and Vancouver, JCI has been successful as an investment dealer – initially servicing the oil and gas industry in Alberta, but with a wider scope as its Toronto and Vancouver offices expand. In 2006 JCI continued to build out its operations. The Vancouver office further strengthened its retail and corporate finance departments. The Toronto office, which had previously focused on institutional sales and trading, research and corporate finance, established a retail division. This office experienced significant growth in 2006, particularly in mining. At the head office in Calgary, the company experienced another good year in corporate finance, supported by two analysts and an associate analyst, and in their retail sales division.In 2006 the company also made application through the National Association of Securities Dealers to operate in the United States, and received approval on January 5, 2007. JCI's strategy is to focus on natural resources (alternative energy, oil and gas, forestry and mining), technology including biotechnology and special situations.

Jennings Capital Inc.

Cooks ISI Insurance

A HARVARD WESTERN FINANCIAL VENTURE

COOKS ISI INSURANCE

In 2005 we formed Harvard Western Ventures, a company jointly owned 50% by Western Financial Group and 50% by Harvard Developments. In our communities in Western Canada, we have

focused on smaller urban centres, but we recognized that opportunity and time would take us to partner relationships with larger urban brokers. The new company brought together two well-known brands, ISI Agencies and Cooks McCallum Hill Insurance, to form a major new insurance broker in Regina. As well, it was the first step in a partnership initiative to consider investing in a network of strong insurance brokers in other major western Canadian cities.

Cooks ISI Insurance offers a broad range of auto, home, business and specialty insurance products from three locations in Regina and one in Kronau, Saskatchewan.

FALKINS INSURANCE

Falkins Insurance was originally established in 1897 by the brokerage founder, Miles Beale, in what was then the gold rush town of Fort Steele, B.C. It moved in the early 1900s to Cranbrook, where it has grown to be the largest general insurance brokerage in the Kootenays. It now owns and operates 10 locations in southeastern BC – two in Cranbrook including its head office, Fruitvale, Salmo, Kaslo, Fernie, Sparwood, Elkford, Kimberley and Golden.

Western Financial Group owns a minority interest in Falkins Insurance Group, which we are expanding over time so that Falkins will become a full part of our Agency Network, in a similar fashion to our recent acquisition of Northcountry Agencies also in B.C. In the meantime, our companies collaborate on operational and strategic initiatives that benefit both networks.

Falkins saw a successful year in 2006, partially due to increasing growth in the economy in this region of B.C., as well as to its growing share of the market in the central and southeast B.C. area.

HED

In October 2006, we acquired a 25% interest in Hayhurst Elias Dudeck, the largest independent insurance broker/administrator in Manitoba. Over time, WFG will have the opportunity to increase its ownership position in HED.

HED was formed in 1982 in a merger of successful brokers specializing in association group insurance programs. Today, with 190 employees nationwide, HED is one of the largest independently owned insurance brokers in Canada. HED provides flexible and innovative insurance solutions through risk management and alternative risk transfer solutions such as managed, insurer protected self-insurance programs for larger buying groups and associations. It operates three core product segments:

- Commercial property and casualty
- Life and health products
- Pet health insurance through its own subsidiary insurance company, Securican General Insurance Company, which is the leading provider of one of the fastest growing insurance products and services in Canada – pet insurance – sold under the Petplan brand (www.petplan.com).

In 2006 HED was recognized as one of the top 10 employers in Manitoba. It was ranked 21 among Manitoba's fastest growing companies and one of the top 200 employers in Canada.

HED Hayhurst Elias Dudek Inc.
INSURANCE AND RISK SERVICES

MANAGEMENT'S DISCUSSION & ANALYSIS

financial condition and results of operations

Catherine Rogers, Chief Financial Officer and two senior accounting staff

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our audited consolidated financial statements and related notes as at and for the years ended December 31, 2006 and 2005.

This management's discussion and analysis is dated March 16, 2007 and provides comments regarding our objectives, strategies, financial results, risk management and business outlook. Forward-looking statements involve numerous assumptions, risks and uncertainties, including the risk that prediction and other forward-looking statements may not prove to be accurate. We caution the reader not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and comments expressed in them. Such factors may include, but are not limited to: changing financial and economic conditions in Canada, particularly in Western Canada; regulatory developments; competition industry trends and availability of capital resources; and our anticipated success in managing our risks. We caution readers that the foregoing list is not exhaustive. Except required by law, we do not undertake to update any forward-looking statements, written or oral, that we may make from time to time regarding our operations and performance.

The financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). We use the term "operating income" to refer to earnings, including investment income, before interest expense, deposits, taxes, depreciation and amortization of intangible and capital assets, excluding gain (loss) from the sale of long-term assets and income from long-term investments. Although operating income and operating margin, each of which are discussed herein, do not have standardized meanings prescribed by GAAP, these measures are determined by reference to our financial statements. We discuss these measures as we feel that they are some of the key indicators of the performance of our business. Operating income is used to measure corporate performance before the costs of capital and amortization of

capital and intangible assets. As we continue to make acquisitions, our amortization of intangibles will continue to increase along with interest costs on funds borrowed to finance the acquisitions. In order to evaluate our longer-term sustainable performance, our management believes that operating income provides a relevant measure of our actual performance.

BUSINESS OF WESTERN FINANCIAL GROUP

We are a leader in providing insurance, financial services and banking services to more than 350,000 individuals and businesses in Western Canada through our WFG Agency Network (the "Network"), affiliated insurance brokers, Western Life Assurance Company ("Western Life") and Bank West.

Our primary business is the ownership and operation of WFG Agency Network, which serves 63 communities with 74 offices in British Columbia, Alberta, Saskatchewan and Manitoba. In addition, we have affiliated offices in 11 communities with 14 offices in British Columbia and Saskatchewan. These locations offer a broad variety of property and casualty insurance services including private auto insurance and government auto in BC, Saskatchewan and Manitoba, home and farm insurance, business and specialty insurance, life products and in many locations, investment and financial services.

In addition, Western Life Assurance Company was acquired effective February 28, 2005, and brings a wide range of quality life insurance products to the WFG Agency Network offices. These include term and permanent life insurance, group benefits, health and disability insurance and loss of employment insurance. Western Life also has a network of over 2,000 brokers who sell its products. Since acquisition Western Life and the Network have worked closely in developing strategies to successfully integrate their product lines with our clients through the Network.

Bank West ("the Bank"), a Schedule A chartered bank, offers deposit and loan services, including GICs and personal and commercial loans which are offered through its own broker network as well as through WFG Agency Network locations. The Bank has been successful in developing a growing business in recreational vehicles, marine and auto dealership financing and in offering mortgage products.

Investment products are offered from many of the WFG Agency Network locations on a referral basis to Jennings Capital, a full-service investment dealer with its head office in Calgary, Alberta, in which we have a 35.7% equity interest.

We have made investments in strategic partnerships in rural communities to begin the process of entering key markets through partial ownership of successful firms where our ultimate long-term goal is full ownership. These partnerships serve locations in 11 communities throughout British Columbia and Saskatchewan.

ACQUISITIONS AND INVESTMENTS

During 2006, the Company purchased 25% of Northcountry Insurance Agencies Ltd. which serves seven communities in British Columbia and purchased all of the outstanding shares of: Golden Eagle Agencies Ltd. in Vegreville, Alberta, 606065 Alberta Ltd. in Leduc, Alberta, 1176496 Alberta Ltd., and 1194595 Alberta Ltd. in Spruce Grove, Alberta, Willow Creek Insurance (1990) Ltd. in Claresholm, Alberta, and Thomsen Fisher Insurance Ltd. in Medicine Hat, Alberta.

In August 2006, we acquired a 25% initial interest in Hayhurst Elias Dudek Inc. ("HED"), the largest independent insurance broker/administrator in Manitoba. HED is one of the largest independently-owned insurance brokers in Canada, with approximately 190 employees nationwide. HED's head office and the majority of the employees are located in Winnipeg, with additional offices in Toronto, Montreal and Halifax. HED offers three core product segments: i) Commercial Property & Casualty; ii) Life and Health; and iii) Pet Health Insurance through its subsidiary SecuriCan General Insurance Company, the leading provider of pet insurance in Canada, sold under the Petplan brand.

During 2005, the Company entered into a business relationship with Harvard Developments to combine two well-known Regina insurance brokers, Cooks McCallum Hill Insurance and our ISI Agency, under one company - Harvard Western Ventures Inc. Both local brand names were also combined, and the offices now operate under the name Cooks ISI Insurance. This partnership forms the first step in a major initiative to expand the traditional WFG broker network presence into strong insurance brokers in the larger metro markets in Western Canadian cities. In addition, in 2005 we purchased all of the outstanding shares of NHI Insurance Group Inc. in Coronation, Alberta, Pender Island Insurance Agency in Pender Island, British Columbia, LeRoy Agencies Ltd. in LeRoy, Saskatchewan, 538500 Alberta Ltd. in Strathmore, Alberta, and purchased 20% of Falkins Insurance Group Limited with 10 locations in British Columbia. We also had an opportunity to sell a portion of one of our business units whose strategic plans do not include the offering of a broader range of products which our Network is focused on providing.

At the end of 2005 we made a business decision to transfer our clients' mutual fund accounts that were being managed under The Western Mutual Fund Company. These accounts are now being managed by Jennings Capital Inc.

KEY BUSINESS DRIVERS

Our management has identified certain key business drivers to assist it in managing and evaluating the progress of our business, especially the largest component of our business, the Network. These drivers consist of both financial and operational indicators. For the Network we track same-store revenue change, from one period to the next. As we continue to add branch offices to the Network through acquisitions it is important for us to track the revenues of the Network's existing branch offices. As we continue to add new products through the sale of P&C insurance and the addition of financial service products through the Network, we expect the average number of products we sell to existing customers to increase. To analyze this, we track the products per customer account (PPCA). We also track the Network's year-to-date annualized percentage change in same-store customer account

increase. With Western Life we track the increase in the policy and certificate count, and with Bank West we are focused on the growth of our loan book. Corporately we are looking at our return on equity and the increase we are able to achieve over the next few years. The table below shows our key business drivers.

Years Ended December 31	2006	2005	2004	2003	2002
.e-store Revenue (% change) (1)	+6.9	+6.8	+6.6	+13.8	+13.0
per customer account (PPCA) (2)	2.29	1.77	1.67	1.51	1.46
Same-store Customer Count (%)	+4.5	+2.8	+4.0	+4.0	+2.0
ar-to-date annualized, % change) (3)					
tern Life Policy/Certificate Count (4)	22,064	19,180	-	-	-
Bank West Loan Book ($ millions)	149.4	91.5	43.4	16.4	
Return on Common Equity (ROE) (%)	8.4	8.1	8.3	7.5	7.2

NOTES

(1) Represents same-store revenue increase for the twelve months ended on the date indicated over the corresponding period in the prior year.

(2) The average number of products per customer account increased significantly in 2005 and 2006 as a result of additional products sold to our existing customers, which we only started tracking in 2004.

(3) Represents year over year annualized increase.

(4) Western Life was acquired on February 28, 2005.

(In $ thousands except for per share amounts)

	2006	2005	2004
Total revenues	82,643	66,641	43,691
Net Income	7,988	4,849	3,395
Earnings per share-Basic ($)	0.22	0.17	0.18
Earnings per share-Fully diluted ($)	0.20	0.15	0.16
otal Assets	384,922	279,699	157,107
Total Long-term Liabilities	125,237	100,584	75,944

Our financial results are divided into four reportable segments: insurance brokerage, banking services, life insurance and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through WFG Agency Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through Bank West. The life segment offers a range of disability products along with group life and health, and loss of employment insurance through WFG Agency Network and other distribution channels.

Years Ended December 31	2006	2005
The Network		
Commissions and other customer revenue	$ 46,674	$ 41,515
Operating expenses	32,366	27,139
Operating income (1)	$ 14,308	$ 14,376
Bank West		
Interest and investment income	$ 8,214	$ 4,284
Net interest and investment income	2,236	959
Operating expenses	2,018	1,565
Amortization of start up and reorganization	-	288
Operating income (loss) (1)	$ 218	$ (894)
Western Life (2)		
Premium and investment income	$ 25,686	$ 18,741
Policyholder benefits	13,595	9,564
Operating expenses	9,510	6,805
Operating income	$ 2,581	$ 2,372
Corporate and all other		
Other revenues	$ 2,069	$ 2,101
Operating expenses	7,526	8,250
Amortization of start-up and reorganization costs	-	86
Operating loss (1)	$ (5,457)	$ (6,235)
Total operating income (1)	$ 11,650	$ 9,619

NOTES:

(1) We use "operating income" to refer to earnings, before interest expense, taxes, depreciation and amortization of intangible and capital assets. Operating income (loss) is a non-GAAP measure we use to measure our corporate performance before the costs of capital and amortization of capital and intangible assets. This measure may not be comparable to similar measures presented by other issuers and investors are cautioned that it should not be used as an alternative to "net income" or other measures of financial performance calculated in accordance with GAAP.

(2) Reflects 10 months of results in 2005 as Western Life was acquired on February 28, 2005.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2006 COMPARED TO THE YEAR ENDED DECEMBER 31, 2005

REVENUE

Revenue	**2006**	**2005**
The Network	$ 46,674	$ 41,515
Bank West	8,214	4,284
Western Life	25,686	18,741
Corporate and all other	2,069	2,101
	$ 82,643	$ 66,641

Total revenue increased by $16.0 million, or 24.0%, to $82.6 million compared to $66.6 million in 2005. This was primarily a result of the acquisition of Western Life contributing $25.7 to our revenue in 2006, Bank West increasing gross interest income by 91.7% and the Network's increase in commissions and other customer income by 12.4%.

The Network's revenue increased by $5.2 million to $46.7 million in 2006 compared to $41.5 million in 2005. This was primarily due to the growth in same-store revenue of 6.9%, representing approximately $2.2 million, and new acquisitions contributing $2.9 million and annualized revenue from acquisitions completed through 2005 of approximately $700,000. We realized a decrease in revenue of $367,000 from the disposition of WFG Commercial Insurance. An increase of $177,000 was derived from other income which includes government

auto income where we saw an increase of $496,000 which came from acquisitions, rate increases and an increase in transactions, while income from the financing of policies for our clients on a monthly pay plan which decreased by $319,000 as we transferred the financing to Bank West. Finally our contingent profit commissions decreased slightly by $492,000 .

Bank West's gross interest revenue increased by $3.9 million to $8.2 million in 2006 compared to $4.3 million in 2005. Bank West had an increase in premium financing with the monthly financing of insurance policies for the Network of $578,000, and an increase in mortgages and personal loans of $3.0 million and an increase in investment and leasing interest of $331,000. Customer deposits increased by $52.0 million to $146.9 million in 2006 from $94.9 million in 2005 which drove interest and commission expense higher by $2.3 million. As a result, Bank West's net interest and other revenue after provisions for loan losses increased by $1.3 million to $2.2 million in 2006 compared to $959,000 in 2005. Mortgages and other loans before provisions for loan losses increased 63.2% to $149.4 million in 2006 from $91.5 million in 2005.

Western Life contributed $25.7 million in total revenue with $22.8 million in net premium revenue and $2.9 million in investment income. Western Life has increased sales in both group products and P&C add-on products and has had its best year ever. Western Life has integrated nicely with the Network and we continue to see an increase in the cross selling of products between Western Life and the Network. We purchased Western Life on February 28, 2005 reflecting 10 months of operations in 2005 compared to 12 months of operations in 2006.

Revenue from our corporate and all other segment remained consistent. Revenue in corporate and all other is derived mainly from our travel operations along with dividend and investment income at corporate.

OPERATING EXPENSES

Operating Expenses	2006	2005
The Network	$ 32,366	$ 27,139
Bank West	2,018	1,565
Western Life	9,510	6,805
Corporate and all other	7,526	8,250
	$ 51,420	$ 43,759

Total operating expenses increased by $7.7 million, or 17.5%, to $51.4 million in 2006 compared to $43.8 million in 2005. This was due to twelve months versus ten months of operations at Western Life for 39.8%, the Network increasing expenses by 19.3% and Bank West expense increase of 28.9%.

Operating expenses in the Network increased $5.2 million, or 19.3%, to $32.4 million in 2006 compared to $27.1 million in 2005. Our increases in expenses are normally the result of new acquisitions and the increase in activity levels as a result of new business. Salaries and wages expense increased 22.0% to $23.7 million from $19.5 million in 2005. Acquisitions increased salaries and wages by $1.7 million while dispositions decreased salaries and wages by $490,000. Annual performance review increases and, additional staff distributed throughout the Network accounted for approximately $1.9 million of the increase and $500,000 for additional head office staff and senior management. This movement in expense was to build the infrastructure of the Network to manage existing operations and continued growth, both organic and acquisition driven. We also saw an increase in producer commission of approximately $200,000 as we hired additional sales commissioned employees and existing salespersons increased their activity. We have also increased our bonus accrual for 2006 by $320,000 based on the results to date. As a percentage of revenue, salaries and wages including producer commissions increased to 50.9% compared to 46.9% in 2005. We expect salaries and wages as a percentage of revenue to continue at approximately 50.0%. In addition we saw an increase in rent of $409,000 with the relocation of some of our branches and the move of our head office. We have seen a reduction of bad debt expense of $116,000 with the balance of the change in general operating expenses.

Bank West's operating expenses increased by $453,000 or 28.9%, to $2.0 million in 2006 compared to $1.6 million in 2005. $179,000 of the increase came from salaries and wages as we added additional staff to support the growth of the Bank and paid performance bonuses. We saw an increase in advertising and marketing of $54,000, an increase in other loan expenses which include servicing fees of $41,000, and an increase in fees associated with management, regulatory, audit and directors of $92,000. The other components of general operating expenses increased $87,000.

The operations of Western Life increased operating expenses by $2.7 million for the twelve months of operations in 2006 compared to $6.8 million for ten months of operations in 2005. Western Life continues to demonstrate efficient control of expenses and slightly lower loss ratios of 45.9% compared to 51.4% in 2005. Commission expenses are higher than anticipated but are in direct correlation to the increase in net premium income. Policyholder benefits were $13.6 million in 2006 and include provisions for actuarial liabilities, claims incurred and surrenders.

Corporate and all other segment expenses decreased $724,000, or 8.8%, to $7.5 million in 2006 compared to $8.3 million in 2005. We saw a decrease in one-time costs incurred in 2006 compared to 2005 of approximately $225,000 for expenses related to potential acquisitions we chose not to complete, $97,000 for costs associated with the valuation of our goodwill, and $140,000 in legal costs related to a claim we had filed against Montreal Trust resulting in a judgment rendered in favour of Montreal Trust. We decreased our expenses at The Western Mutual Fund Company by $951,000 with the transfer of our clients' mutual fund accounts to Jennings Capital. Offsetting this decrease in expenses of $1.4 million, we saw an increase in bank charges with additional activity of $82,000, and an increase in advertising and promotions by $120,000 for WEST magazine, which we distribute to our clients. We also incurred costs of $126,000 associated with senior executive recruitment. We relocated our head office to accommodate our growth and saw an increase in rent of $300,000. The balance of the change in expenses is attributable to our normal operating expenses growing in line with our business with certain cost savings in travel and advertising and the reclassification of certain costs to the Network.

Amortization of start-up and reorganization costs decreased by $374,000 due to the completion of the amortization of certain start-up costs at Corporate. In addition, the start-up costs for Bank West were fully amortized in 2005, which accounted for $289,000 of the total amortization costs in 2005.

INCOME FROM LONG-TERM INVESTMENTS

Income from long-term investments increased $966,000, or 71.2% from our investment in Jennings Capital Inc. and Harvard Western Ventures Inc. This increase also includes our investment made later in 2005 in Falkins Insurance Group Limited and investments made in 2006 in Northcountry Insurance Agencies Ltd., and Hayhurst Elias Dudek Inc.

GAIN ON SALE OF GOODWILL AND CAPITAL ASSETS

We recorded a one-time gain of $488,000 ($434,000 after-tax) in 2006 on the sale of building and land assets as compared to a one-time gain of $630,000 ($277,000 after-tax) on the sale of an agency in 2005.

TAXI

Income taxes decreased $379,000, or 16.0%, to $2.0 million in 2006 compared to $2.4 million in 2005. Our effective tax rate, decreased to 20.0% from 32.8% in 2005. This decrease was the result of an increase in our non-taxable income which includes a portion of our income from our equity investments and the results of the impact of reductions of the Federal and Provincial income tax rates.

INCOME

Net income increased $3.1 million or 64.7%, to $8.0 million in 2006 compared to $4.9 million in 2005. This increase was due to the increase in our operating income, the increase in our income from long-term investments and the decrease in our effective tax rate.

ECTED QUARTERLY FINANCIAL INFORMATION

For the Quarters Ended — 2006
(In $ thousands except per share amounts)

	March 31	June 30	September 30	December 31
Total revenue	$ 17,792	$ 20,996	$ 21,480	$ 22,375
Income before income taxes	1,444	3,058	2,313	3,163
Net income	1,145	2,379	1,486	2,978
Earnings per share				
Basic	$ 0.04	$ 0.08	$ 0.05	$ 0.05
Diluted	$ 0.04	$ 0.06	$ 0.04	$ 0.06

For the Quarters Ended — 2005
(In $ thousands except per share amounts)

	March 31	June 30	September 30	December 31
Total revenue	$ 12,702	$ 18,168	$ 16,878	$ 18,893
Income before income taxes	1,425	2,703	1,403	1,687
Net income	1,060	1,548	1,026	1,215
Earnings per share				
Basic	$ 0.04	$ 0.06	$ 0.04	$ 0.03
Diluted	$ 0.04	$ 0.05	$ 0.03	$ 0.03

For the quarter ended December 31, 2006, the Company's fourth quarter, we generated revenue of $22.4 million, net income of $3.0 million, and earnings per share of $0.05. This compares to revenue of $18.9 million, net income of $1.2 million and earnings per share of $0.03 in 2005. The fourth quarter increase over 2005 is due to the increase in operations from the acquisitions in the third and fourth quarter in 2006 along with increased operating profits at Western Life and Bank West. In the fourth quarter of 2006 we realized a one-time gain from the sale of real estate assets of $488,000 and saw the reduction of our expected income tax expense due to the reduction of future tax rates ranging from 28.0% - 32.0%. Our expected tax expense of $3.2 million was reduced by income tax rate reductions, non-taxable income, and non-deductible expenses to $2.0 million.

YEAR ENDED DECEMBER 31, 2005 COMPARED TO THE YEAR ENDED DECEMBER 31, 2004

REVENUE

Total revenue increased by $22.9 million, or 52.5%, to $66.6 million compared to $43.7 million in 2004. This was primarily a result from the acquisition of Western Life (formerly Federated Life) contributing $18.7 to our revenue in 2005.

The Network's revenue increased by $1.6 million to $37.3 million in 2005 compared to $35.7 million in 2004. This was primarily due to the growth in same-store revenue of 6.8% (approximately $1.8 million). We saw an increase in P&C sales of $1.3 million which includes government auto, revenue from new acquisitions of $328,000 and annualized revenue from acquisitions completed through 2004 of approximately $800,000. We realized a decrease in revenue of $891,000 from the disposition of WFG Commercial Insurance and a further decrease in our Network's revenue of $906,000 as we merged ISI agencies with Cooks McCallum Hill Insurance to form Harvard Western Ventures Inc. Harvard Western Ventures now makes up a portion of our income from long-term investments. An increase of $385,000 was derived from other income which includes registries income where we saw an increase of $212,000 which was from new acquisitions in 2005 and a full year of our 2004 acquisitions, and income from the financing of policies for our clients on a monthly pay plan which increased by $130,000.

Bank West's gross interest income increased by $2.2 million, to $4.3 million in 2005 compared to $2.1 million in 2004. Customer deposits increased by $45.3 million to $94.9 million in 2005 from $49.6 million in 2004 which drove interest and commission expense higher by $1.6 million. As a result, Bank West's net interest and other income after provisions for loan losses increased by $305,000 to $958,000 in 2005 compared to $653,000 in 2004. Mortgages and other loans more than doubled to $90.8 million in 2005 from $43.4 million in 2004.

Western Life contributed $18.7 million in total revenue with $16.4 million in premium revenue and $2.4 million in investment income. Western Life has increased sales in both group products and P&C add on products.

Revenue from our corporate and all other segment increased by $501,000 to $6.3 million in 2005 compared to $5.8 million in 2004. A portion of the increase was due to contingent commissions received, which increased $368,000 contributing to total contingent commissions of $4.2 million in 2005 compared to $3.9 million in 2004. Included in the $4.2 million for 2005 was an additional $753,000 for 2004 which was higher than management's estimate. Our numbers continue to reflect the increased profitability of the business we place with our P&C insurance providers. We also saw an increase in our dividend income by $216,000 in 2005 due to our preferred share investment in Jennings Capital and our preferred share investment portfolio.

OPERATING EXPENSES

Total operating expenses increased by $10.2 million, or 30.3%, to $44.0 million in 2005 compared to $33.8 million in 2004, primarily due to the acquisition of Western Life on February 28, 2005. The addition of Western Life increased our operating expenses by $6.8 million which accounted for 69.3% of the total increase.

Operating expenses in the Network increased $1.1 million, or 4.5%, to $26.6 million in 2005 compared to $25.4 million in 2004. Our increases in expenses are normally the result of new acquisitions and the increase in activity levels as a result of new business. New acquisitions completed in 2005 increased operating expenses by approximately $204,000 while the disposition of WFG Commercial Insurance and the merger of ISI with Harvard Western Ventures Inc., as discussed in the Network's revenue analysis, decreased our expenses by $1.1 million. Acquisitions completed throughout the year in 2004 increased the 2005 expenses by $543,000. Salaries and wages expense for 2005 increased 7.8% to $19.2 million from $17.8 million in 2004. As a percentage of revenue, salaries and wages increased slightly to 51.5% compared to 49.8% in 2004. This movement was due to the additions in senior management to build the infrastructure of the Network to manage existing operations and continued growth both organic and acquisition driven. We saw an increase in travel expense of $106,000 for the regional meetings held for management and our executives attending branch meetings. The balance of the increase in operating expenses related to advertising, promotion, relocation costs, and office expense.

Bank West's operating expenses remained consistent year over year at $1.6 million in 2005 and $1.5 million in 2004.

The operations of Western Life increased our operating expenses by $6.8 million for the ten months of operations since the acquisition on February 28, 2005. Western Life has demonstrated efficient control of expenses and lower than expected claims incurred. Commission expenses are higher than anticipated but are in direct correlation to the increase in net premium income. Policy holder benefits were $9.6 million in 2005 and include provisions for actuarial liabilities, claims incurred and surrenders.

Corporate and all other segment expenses increased $2.0 million, or 29.2%, to $8.8 million in 2005 compared to $6.8 million in 2004. Additional management and accounting staff accounted for approximately $302,000, and an increase in salaries and wages of $175,000 with the Western Mutual Fund Company. The amortization cost of our employee share ownership plan increased by $329,000 due to the increase in overall staff, and participation in the plan has increased to approximately 53.0%. We incurred one-time costs of approximately $181,000 for expenses related to potential acquisitions we chose not to complete and $96,000 for costs associated with the valuation of our goodwill. In addition we had one time costs associated with bonuses and awards of $226,000. We had an increase of $239,000 associated with promotions, travel, meetings, and education including the employee convention and director and management meetings and seminars. The Western Mutual Fund Company paid out $300,000 in commissions and increased our computer expense by $90,000 for the processing platform required for the mutual fund business. The balance of the change in expenses is attributable to our normal operating expenses growing in line with our business with certain cost savings in technology and the reclassification of certain costs to the Network.

Amortization of start-up and reorganization costs decreased by $69,000, or 15.6%, to $374,000 in 2005 compared to $443,000 in 2004, due to the completion of the amortization of certain start-up costs. The start-up costs for Bank West have been fully amortized in 2005 which accounted for $289,000 of the total amortization costs.

OTHER EXPENSES AND INCOME

We recorded a one-time charge of $670,000 ($476,000 after-tax) in 2004 associated with legal and other costs related to a claim we had filed against Montreal Trust. During 2004 a judgment was rendered in favour of Montreal Trust. We have determined that there is sufficient basis upon which to file an appeal. As the outcome of the appeal is not determinable, the costs incurred to date have been recorded as an expense in 2004. Any recovery of costs as a result of the appeal will be recorded in the year recovered.

We recorded a one-time gain of $630,000 ($ 277,000 after-tax) on the sale of an agency in 2005 as compared a one-time loss of $95,000 ($71,000 after-tax) on the sale of assets in 2004.

Interest and financing costs increased $60,000, or 2.3%, to $2.7 million in 2005 compared to $2.6 million in 2004. With the reclassification of the equity portion of our convertible debentures to debt we had an increase in deferred finance costs of $299,000 which increased our interest expense by $75,000.

Amortization of intangible assets increased $109,000, or 49.5%, to $329,000 in 2005 compared to $220,000 in 2004 as a result of the increase in the amount of intangible assets from $7.1 million in 2004 to $10.5 million in 2005. The change in intangibles assets is a result of acquisitions and disposals completed in 2005.

Amortization of capital assets increased by $354,000, or 33.7%, to $1.4 million in 2005

compared to $1.1 million in 2004 due to the addition of $2.0 million of new capital assets and assets related to acquisitions (additions of $2.5 million less disposals of $471,000 from the sale of a building). Our additions from the year come from the purchase of office facilities, leasehold improvements, and furniture and computer equipment for new and existing staff.

Income taxes increased $1.1 million, or 80.7%, to $2.4 million in 2005 compared to $1.3 million in 2004 primarily due to increased operating income for the period. Our effective tax rate, however, did increase to 32.8% in 2005 from 28.7% in 2004 with the dispositions of previously acquired goodwill, and an adjustment through future taxes. When the company acquires shares in business acquisitions, there is no tax cost associated with the goodwill acquired. As a result an additional tax expense is realized when these assets are subsequently sold. In 2005, the company sold the operations of ISI Agencies, the operations of which were acquired through a share purchase in a previous year, resulting in an additional tax expense. We had an increase of $167,000 in tax expense related to the sale of assets, and we recorded a future tax adjustment of $179,000. In addition we realized a tax benefit of $113,000 on the gain of the sale of equities.

NET INCOME

Net income increased $1.4 million or 42.8%, to $4.8 million in 2005 compared to $3.4 million in 2004. This increase was primarily due to the increase in our operating income with the addition of Western Life as well as our gain of $630,000 on the sale of a portion of two of our reporting units.

LIQUIDITY AND CAPITAL RESOURCES

Total shareholders' equity as at December 31, 2006 was $131.2 million, or 80.4% higher than at December 31, 2005. We increased retained earnings $7.5 million and had options granted and exercised increasing our share capital and contributed surplus by $712,000. We exercised our option to redeem our 9% subordinated convertible redeemable debentures due February 2007 on June 30, 2006, increasing shareholders' equity $11.0 million.

We expect our capital resources will be sufficient to satisfy our financial requirements, which include business acquisitions and capital expenditures. Capital resources include cash, funds raised through equity financings, available senior bank debt and funds generated from operations.

We have a credit facility to a maximum of $40.0 million negotiated with the a Canadian chartered bank. As at December 31, 2006, $9.1 million of this facility had been utilized. Pursuant to the terms of this credit facility, we make monthly loan payments of $122,000 plus interest. Repayment of the credit facility is dependent upon annual renewal. In the event the Bank of Montreal elects not to extend the initial period, the facility will convert to a two-year committed term facility for all amounts due thereunder. In March 2003, we entered into an interest rate swap agreement exchanging $8.0 million of floating rate debt for a fixed rate of 6.225%. This debt requires interest payments only. The swap agreement expires May 2008. At December 31, 2006 we were in compliance with the financial covenants of our senior credit facility.

At December 31, 2006, we also had a total of $15.0 million in subordinated convertible redeemable debentures due 2009 and 2010. At this time we are not in a position to force conversion of, nor are we planning to pursue early redemption of these debentures.

At June 30, 2006 we redeemed our $11.0 million subordinated convertible redeemable debentures outstanding with interest payable semi-annually at 9% per annum. These debentures were convertible at the option of the holder, at any time prior to maturity, into our common shares at a conversion price of $2.50. The debentures were due February 2007.

At December 31, 2006, we had a total of $1.0 million of unsecured subordinated notes with interest payable semi-annually at 12% per annum. The notes are redeemable by the Company after March 2010.

At December 31, 2006 we had cash of $9.1 million as compared to $10.4 million at December 31, 2005. Operations contributed $15.9 million as compared to $6.5 million in 2005 due to the increase in accounts payable with deposits at Bank West and the increased investment with Jennings Capital. Cash used in investing activities was $100.5 million in 2006 as compared to $78.7 million in 2005. We increased our investments with the addition of Northcountry Insurance Agencies Ltd., Hayhurst Elias Dudek Inc., and increased our investment in Jennings Capital Inc. We decreased our activity with acquisitions by $ 4.2 million. In 2006, $88.3 million was provided by our financing activities. Net proceeds from a private placement of preferred shares provided $14.2 million and a public offering with the issuance of common shares provided $25.1 million in financings. We made repayment of $1.1 million on our preferred share margin account. Our customer deposits supporting our customer loans at Bank West increased $6.0 million. This resulted in an increase in cash for the year of $3.8 million.

CONTINGENT OBLIGATIONS

In the normal course of business Bank West issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year-end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $5,617 (2005 - $3,091).

Under the terms of the investment agreement with Hayhurst Elias Dudek Inc., and

the purchase Agreement with Thomsen Fisher Insurance Ltd., additional consideration may be granted contingent on earnings levels in the future. The amount and outcome of contingent consideration cannot be reasonably estimated and has not been recognized in the financial statements.

The company is committed to the following annual property lease payments, and long-term debt payments between 2006 and 2011.

	Property Leases	Long-Term Debt
2007	$ 2,386	$ 5,024
2008	2,269	10,857
2009	1,865	2,857
2010	1,659	2,857
2011	1,449	2,857

TRANSACTIONS WITH RELATED PARTIES

(in thousands, except for per share amounts)

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

- Interest of $8 (2005-$8) was paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for the investment margin loan described in Note 13 of our audited financial statements.
- Dividends income on preferred shares of $396 (2005-$182) and income from equity investments of $1,492 (2005-$976) were accrued with respect to our investment in Jennings Capital Inc.
- Underwriting fees of $909 (2005-nil) were paid to Jennings Capital Inc., in underwriters' fees in connection with their participation in our common share Offering.
- Commission income of $13 (2005-$2) and fees for computer service of $70 (2005-$10) were accrued for services provided to Jennings Capital Inc.
- Dividends on preferred shares in the amount of $5 (2005-$8) were accrued to a company controlled by a director.
- The Western Mutual Fund Company is able to share certain officers and staff with Jennings Capital Inc. It has accrued nil (2005-$119) in shared costs which is payable to Jennings Capital Inc.

SUBSEQUENT EVENTS

In 2006 the company entered into memorandums of understanding and term sheets with respect to the acquisition of Insurance brokerage businesses of the Sawchuk Group, with three offices in Dawson Creek, four offices in Fort St. John, and one office in Fort Nelson, as well as its Sawchuk Financial Services division located in Dawson Creek. The Company also acquired Silver Star Brokers in Vernon, B.C., and the remaining 75% of Northcountry Insurance Agencies Ltd. with locations in 100 Mile House, Burns Lake, Fraser Lake, Houston, Smithers, Vanderhoof and Williams Lake, B.C. All of these acquisitions were finalized in January of 2007. These acquisitions were financed by utilizing $20.0 million of our senior credit facility along with cash from our financing in the fourth quarter.

OUTSTANDING SHARE DATA

At December 31, 2006 the balance of issued common shares was 42,900,385, for a total value of $96.5 million. We issued 150,000 preferred shares for a total value of $14.2 million of which 1,500 were converted into 41,667 common shares in the year. In June 2006 we redeemed our subordinated convertible redeemable debentures due February 2007 by issuing 4,390,000 common shares. We issued 7,590,000 common shares pursuant to a public offering in the fourth quarter of 2006.

We have a fixed stock option plan under which we may grant options to directors, officers, shareholders and consultants for up to 10% of the issued and outstanding shares to an aggregate maximum of 1,600,000 common shares. We granted 73,000 options in 2006, 235,000 options were exercised and 5,000 options were cancelled, leaving 513,000 options outstanding at December 31, 2006 of which 350,000 were exercisable and 1,087,000 are available for grant.

CRITICAL FACTORS AFFECTING RESULTS

The level of revenue and earnings from our operations depends on several factors including basic commission levels paid to us for the sale of P&C insurance products, the amount of contingent commissions paid by our main P&C insurance providers, our ability to sell additional financial products and services to the existing customer base of the Network, returns on our corporate and financial investments and our ability to control and manage expenses.

REVENUE

A significant element of our revenue is the receipt of basic commissions from our P&C insurance providers. Basic commission levels vary by province and product but generally range from 5.0% to 20.0% of the premiums written and are typically paid at a rate of 12.5% for premiums sold for automobile insurance and 20.0% for premiums sold for property and liability insurance.

As part of our overall agreements with our larger P&C insurance providers, we have negotiated various levels of contingent commissions, which are based on previous years' business written with that particular P&C insurer and are usually determined by profitability and volume. Furthermore, the Network's sales of complementary financial products and services such as banking products, life and health insurance products, group benefits, mutual funds and investment products also continue to grow.

In addition, we generate revenues from several other sources. Sales of Bank West products and agency banking products such as GICs, loans and mortgages have been growing steadily and are becoming a meaningful source of revenue, and premiums generated through Western Life for group and individual life insurance, group health coverage, and creditor insurance.

EXPENSES

Our expenses consist primarily of salaries and wages expense (which include benefits and bonuses) of our staff as well as overhead and administrative expenses. As our single largest expense is employee salaries and wages, any significant changes in this area will have a meaningful impact on our overall expenses. The largest portion of our expenses relate to operating the Network. We monitor the expenses through local budgets that are set by each branch office and segment of the Company. These expense budgets are approved by our senior management and are monitored on an ongoing basis. As the Network is a broker, it does not bear any expense as a result of a customer making an insurance claim. The financial impact of insurance claims is a potential decrease in the contingent commission paid to us. However, as contingent commissions are paid to us based on the aggregate number of policies placed with a P&C insurer, only a very large individual loss could impact the overall contingent commission paid. With the sale of life products actuarial liabilities are computed to properly match policy holder benefits and expenses to revenue.

INVESTMENTS

Our interest in Jennings Capital, Harvard Western Ventures, Falkins Insurance Group, Northcountry Insurance and more recently HED have produced annual returns, which have added to our earnings.

SCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2006. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As at the financial year ended December 31, 2006, the Chief Executive Officer and Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at December 31, 2006 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REGULATION

The industries in which we operate are regulated for the sale of all P&C insurance, banking products, life and health insurance products, mutual funds and investments. Changes in these regulations may significantly affect our operations and financial results.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Our consolidated financial statements are prepared in accordance with Canadian GAAP as further described in Note 2 of our audited financial statements. These accounting polices require our management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the allowance for loan losses, assessment of impairment of goodwill, the useful life of intangible assets, allocation of purchase price of an acquisition to goodwill and intangible assets, allowance for policy cancellations of commission revenue and stock-based compensation, and future income taxes. Estimates are based on our management's experience, terms of contracts and policies, observation of industry trends and information provided by outside sources. These estimates are more fully discussed below.

MORTGAGES AND LOANS

Bank West has a general allowance for loan losses for the portfolio of mortgages and loans that it provides to individuals and businesses, which is estimated using industry knowledge of similar loan portfolios, in addition to specific provisions for identifiable impaired loans. The general allowance is based on an assessment of existing economic and portfolio conditions which will change over time. The general allowance is re-assessed monthly and fluctuates as a result of changes in portfolio volumes, concentrations and risk profile and analysis of evolving trends. Changes in this estimate will impact the net interest income portion of revenue reported by Bank West.

ACTUARIAL LIABILITIES

Actuarial liabilities are determined by the Appointed Actuary using the Canadian Asset Liability Method and represent the amount, which, together with future policy premiums and investment income, will be sufficient to meet future benefits and expenses.

REINSURANCE

Western Life follows the policy of underwriting and reinsuring contracts of insurance which, depending on the type of insurance, limits their liability to a maximum amount of $100,000 per life insured or $2,500 per month for any disability income claim. Western Life reflects reinsurance balances on the balance sheet and income statements on a net basis. Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. All current new business is placed with registered reinsurers.

GOODWILL

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment on an annual basis by comparing the fair value of each reporting segment to its book value. The fair value of a reporting segment is estimated using revenue and earnings multiples that have been observed in the relevant industry. In 2004 an independent valuation confirmed that the valuation principles used were accurate and that there was no impairment to goodwill recorded in the financial statements. An internal evaluation was completed in 2006 and no impairment was identified.

INTANGIBLE ASSETS

Intangible assets in respect of purchased customer contracts and related customer relationships are being amortized on a straight-line basis over the estimated life of the asset. We have relied on our past experience with respect to customer retention in determining a 30-year life for purchased customer contracts and the related relationships. Customer retention rates may change over time based on competition in our markets. Any changes in retention rates would result in changes to the useful life and annual amortization expense. We annually assess whether the life of the intangible asset is appropriate as well as for impairment by comparing the carrying amount to its fair value. Indefinite-life assets are subject to impairment tests under Canadian GAAP on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value.

ALLOCATION OF THE PURCHASE PRICE OF AN ACQUISITION

Acquiring businesses that are competing with our existing businesses is a fundamental component of our growth strategy. When we acquire a business, the purchase price allocated to the assets acquired and the liabilities assumed are based on their fair values. Any excess of purchase price over identified assets is allocated to goodwill. The fair value of assets, including intangible assets, is determined using valuation methods including net realizable value and discounted cash flows. The use of assumptions, which are based on our management's judgment, is inherent in the application of these valuation methods. The use of different judgments, estimates and valuation methods may result in different allocations of the purchase price and, as a result, different results of operations.

REVENUE RECOGNITION

P&C insurance commission revenue is recognized when the P&C insurance policy sold is in place and the amount of the commission earned is determinable. Contingent commissions are recorded when amounts can be determined and are recognized when they are earned. The determination of contingent commissions is based on estimates received from P&C insurance companies and may vary from actual amounts received. Commission revenue is reported net of an allowance for commission losses that may be incurred if a policy is cancelled.

Revenues from banking operations are classified as net interest income with revenue recognized in the period earned.

Premium revenue from all types of life insurance contracts are recognized as revenue when due.

Investment income represents excess working capital that is invested in preferred shares and short-term deposits. Investment and interest income consists of dividends earned and gains (losses) realized on the sale of these preferred shares and interest earned on these deposits.

UTURE ACCOUNTING POLICIES

Effective January 1, 2007, the company will be required to comply with the new provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook on accounting for Financial Instruments. On June 22, 2006, The Office of the Superintendent of Financial Institutions Canada issued Guideline D-10 (OSFI D-10) entitled Accounting for Financial Instruments Designated as "Held for Trading" (Fair Value Option), which provides additional guidance to federally regulated financial institutions including banks and life insurance companies.

Under the new standard, all financial assets, including derivatives, must be classified as available for sale, held for trading, held to maturity, or loans and receivables. All financial instruments classified as available for sale or held for trading are required to be recognized at fair value on the consolidated balance sheet while financial instruments classified as loans and receivables or other will continue to be measured at amortized cost using the effective interest rate method. The standards allow the Company to designate certain financial instruments, on initial recognition, as held for trading. This option has been limited by OSFI D - 10.

Changes in the fair value of financial instruments classified as held for trading will be reported in net income. Unrealized gains or losses on financial instruments classified as available for sale will be reported in other comprehensive income until they are realized.

Under this new standard, deferred net realized gains on finanical instruments (bonds, stocks, and mortgages) carried on the balance sheet will be transferred to surplus.

The new accounting standard is expected to contribute to volatility within certain income statement line items, particularly for investment income and actuarial provisions. However, based on the Company's review to this point, it does not expect that the new guidance will result in a material impact on net income.

RISKS INHERENT IN OUR BUSINESS

Effective risk management is fundamental to our ability to protect the interest of our shareholders and is required in order to comply with various regulatory requirements applicable to our operations. Our management oversees and manages our risk along with oversight and advice from both our audit and risk committee and those of Bank West and Western Life. We perform an analytical review of our operations during our quarterly reviews and involve every level of our management in our monthly reporting.

CONTINGENT COMMISSIONS

Many P&C insurance companies pay us contingent commissions for achieving profitability and premium volume goals set by them and/or based on the loss experience of the insurance we place with them. We generally receive contingent commissions in the first and second quarters of each year in respect of contingent commissions earned in the previous year. However, we have no control over the ability of P&C insurance companies to estimate loss reserves, which is a factor that affects the amount of contingent commissions that we will receive. In addition, because no significant incremental operating costs are incurred when contingent commissions are realized, a significant decrease in contingent commissions can cause a disproportionate decrease in net income and would consequently have a negative impact on our financial results. This could limit our ability to incur and service debt and comply with financial covenants in our existing credit facility and could have a material adverse effect on our business, financial condition and result of operations.

ACQUISITIONS AND GROWTH

Our growth plans depend in part upon the ongoing acquisition, at reasonable prices, of independent brokers and other businesses. To meet our growth plans an adequate number of acquisition candidates must be available at prices which will allow us to operate on a profitable basis. We may determine that current market or pricing conditions in the P&C insurance brokerage industry make future acquisitions uneconomic, or that the available acquisition opportunities are not sufficiently attractive to us. Moreover, we may not be able to finance such acquisitions as additional capital may not be available or may not be available on commercially acceptable terms.

To manage any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain our employees. There can be no assurance that we will be able to manage such growth effectively, that our management, personnel or systems will be adequate to support our operations or that we will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth, and failure to do so could have a material adverse effect on our business, financial condition and results of operations.

As part of our growth strategy, we seek to cross-sell multiple lines of business to existing customers. This strategy may not result in achieving our desired growth. Due in part to the decentralized nature of our operations, we may have difficulty in focusing our employees on our sales management program and cross-selling strategy. In addition, we may have difficulty integrating acquired operations and newly hired employees into our sales management program and cross-selling strategy.

We have identified 159 target communities (that we estimate have 475 brokers) for future expansion in the next four to six years. There is no assurance that we can complete acquisitions in any of these communities within the estimated time frame or at all.

Although we conduct due diligence in respect of the business and operations of each of the businesses we acquire, we may not have identified all material facts concerning these businesses. Unanticipated events or liabilities relating to these businesses could have a material adverse effect on our financial condition. Furthermore, once we have integrated an acquired business, it may not achieve levels of revenue, profitability, or productivity comparable to our existing locations, or otherwise perform as expected. Our failure to succeed in our growth strategy or to integrate one or more acquired business so that it achieves our performance goals may have a material adverse effect on our results of operations and financial condition.

CAPITAL FUNDING

We will, from time to time, require additional financing to continue to grow our business. Our ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing, if needed, on terms satisfactory to us. If additional financing is raised by the issuance of common shares from treasury our control may change and our shareholders may suffer additional dilution. From time to time we may enter into transactions or expend funds in a manner which may be financed partially or wholly with debt and may increase our debt levels above industry standards.

INTEREST RATES

An increase in interest rates may result in increased costs of borrowing for us on both existing and future debt instruments or credit facilities and such increased costs would negatively affect our operating results. We are also exposed to interest rate risk arising from the difference between the repricing dates of Bank West's assets and liabilities. The differentials, or interest rate gaps, arise as a result of the differences in term preferences of borrowers and depositors. A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific repricing period. A positive gap would result in decreased interest income when market interest rates fall because assets are repricing earlier than liabilities. Rising market interest rates have the opposite effect. The effect of an interest rate gap and changing market interest rates may have a negative effect on Bank West's results of operation and financial condition.

INVESTMENT RISK

Investment risk is the exposure to investment loss from general economic and stock market fluctuations. We have invested a significant amount of our excess working capital in preferred shares of Canadian corporations rated "Pfd-1" and "P1" and "Pfd-2" and "P2" by Dominion Bond Rating Services or Standard & Poor's, a division of The McGraw-Hill Companies Inc., respectively. Bank West is also invested in government and corporate bonds and securities. Western Life also maintains an investment portfolio in support of its actuarial liabilities and an additional investment portfolio of capital surplus funds. Both portfolios contain bonds and equities. A significant decline in the value or yields of these securities that we own could have a material adverse effect on our business, results of operations and financial condition. Our ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. These investments are subject to the risk, among others, that the financial condition of issuers in which we invest may become impaired or the general condition of the stock market deteriorates. We may experience losses as a result of this risk and any such losses may be significant.

CREDIT RISK

We are exposed to credit risk with respect to our marketable securities, accounts receivable and mortgages and loans receivable. We only invest in Canadian corporations and institutions with large capitalization to reduce credit risk, however, changing economic conditions or the change in the financial condition of the issuer of the securities can result in increased defaults by the issuer whose securities we own. Credit risk associated with our accounts receivable is minimized by our large and diverse customer base, which covers all consumer and business sectors in Western Canada. However, we cannot ensure that our debtors will pay our accounts receivable on a timely basis or at all which could have a material adverse effect on our results of operations and financial condition. Credit risk associated with Bank West's mortgages and loans is mitigated through conservative underwriting policies, charges against real property and mortgage insurance, however, we cannot ensure that Bank West's debtors will pay these loans or mortgages on a timely basis or at all or that any associated security will be sufficient to cover the amount of any indebtedness. As a result, failure to repay these amounts could have a material adverse effect on our results of operations or financial condition.

PRICING RISK

Pricing of life and health insurance policies involves estimates and assumptions of such factors as mortality, morbidity, future investment yields, expenses and surrenders. Pricing risk is the risk that the actual experience will not develop as estimated. Management of pricing risk involves careful product design, extensive use of modeling and sensitivity testing as well as monitoring through experience studies. Despite management of these risks, there can be no guarantee that actual experience will not differ from the assumptions made in the pricing of the insurance products of Western Life from time to time. Western Life manages

this risk through comprehensive underwriting and claims payment guidelines. In addition, reinsurance is used to mitigate exposure to individual lives or benefits. Western Life's maximum retentions are subject to board approval.

EGULATION

Our insurance, investments and mutual fund operations depend on our continued good standing under the licenses and approvals pursuant to which we operate. In all jurisdictions, the applicable licensing laws and regulations are subject to amendment or interpretation by regulatory authorities, and generally such authorities are vested with relatively broad and general discretion as to the granting, renewing and revoking of licenses and approvals. There can be no assurance that we will be able to obtain or retain all required licenses or that the cost of complying with these regulations will not increase. Any increase in the cost of complying with government regulation will have a negative effect on our operating results, as will the loss or inability to obtain any material license required to operate the business.

Changes to laws or regulations, including the adoption of generous consumer protection measures or other initiatives regarding contingent or other commissions or rates charged for automobile insurance or claims-handling procedures, could materially adversely affect our business, results of operations and financial conditions.

Bank West and Western Life could be subject to regulatory actions, sanctions and fines if a regulatory authority believed it had failed to comply with any applicable law or regulation.

Where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a bank or a federal insurance company, the Superintendent may direct the bank or insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a bank or insurance company or take control of the bank or insurance company.

More restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive. Specifically, recently adopted legislation addressing privacy issues, among other matters, is expected to lead to additional regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

The revenue we generate from the sale of automobile insurance policies represents a significant portion of our overall revenues. As a result, any action by government authorities to change the nature of the automobile insurance industry in our markets could affect our commission levels and our revenues.

NATURE OF OUR BUSINESS

Our fixed costs (including costs associated with salaries and employee benefits and bonuses, depreciation and amortization, and interest expense and principal repayments), account for a significant portion of our costs and expenses. As a result, low productivity resulting from lower demand or other factors or a decrease in the premium rates, volume and commission paid in the segments of the P&C insurance industry in which we operate could have a material adverse effect on our business, financial condition and results of operations.

Brokers distribute insurance polices underwritten by P&C insurance companies. Some P&C insurance companies offer their products through dedicated, captive sales organizations. If the number of such P&C insurance company's increases, our revenues may decrease, which decrease could have a material adverse effect on our business, financial condition and results of operations.

INSURANCE PRODUCTS

Our operations and success depend in part upon access to products sold by Canadian and international insurance companies. Our existing brokerage contracts with certain insurance companies do not have a set term or expiry date, but may be terminated by either party with between 90-120 days' written notice, depending on the specific contract. To reduce this risk, we have entered into business development agreements with a number of major Canadian insurance companies. Our ability to carry on business is dependent on our continuing ability to attract and maintain relationships with these insurance companies. However, other than pursuant to these agreements, there can be no assurance that we will continue to have access to such insurance products.

An inability to maintain or obtain access to insurance products would have a negative impact on us. Although we can obtain replacement business for departing insurance companies, the loss of such business, particularly of a major current provider, could have a material adverse effect on our business, financial condition and results of operations.

Further, any significant decrease in the premium rates, volume or basic or contingent commissions paid in the segments of the insurance industry in which we operate can adversely impact us.

COMPETITION

We face competition from the estimated 800 independent brokers delivering P&C and life insurance products in rural Western Canada. We also face competition from certain P&C insurance companies, including some owned by Canadian chartered banks, who distribute their products directly to consumers. In addition, Canadian chartered banks pose a poten-

tial competitive threat as they are attempting to obtain the legal right to sell insurance at their branches to compete directly with insurance companies and brokers. There are also a number of companies operating in the P&C insurance brokerage industry in Canada that compete with us, including Hub International Limited, Anthony Clark International Insurance Brokers Ltd. and Canada Brokerlink Inc. We also face competition from banks, mutual fund companies, financial planners and other financial service providers in the sale of non-P&C insurance products. We, in general, also face future competition from financial institutions which deliver or are preparing to deliver financial services and insurance products and services by electronic means, most notably through the Internet.

Competition is intense in all of our business lines and in every insurance market. We believe that most of our competition in P&C insurance is from numerous local and regional brokerage firms that focus primarily on middle-market businesses and, to a lesser extent, from larger national brokerage firms. In addition, insurance companies compete with us by directly soliciting customers without the assistance of an independent broker or agent. Weak economic growth, as well as rising P&C insurance rates may exacerbate those various competitive pressures as some of our customers may choose to cut back or eliminate various types of coverage, or choose to seek competitive quotes from other brokers.

Some of our competitors have greater financial and other resources than we do and therefore no assurance can be given that we will be successful in such a competitive environment.

DEPENDENCE ON KEY PERSONNEL

Our success is largely dependent on the performance of our key employees and senior management. Failure to retain our key employees or to attract and retain additional key employees with necessary skills could have a materially adverse impact on our growth and profitability. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

ERRORS AND OMISSIONS CLAIMS

We have extensive operations and are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing insurance and handling claims. The placement of insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against us may allege our potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defence costs. Errors and omissions could include, for example, our employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to our customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions we take may not be effective in all cases.

Our business, financial condition and/or results may be negatively affected if in the future our errors and omissions insurance proves to be inadequate or unavailable. In addition, errors and omissions claims may harm our reputation or divert management resources away from operating our business.

UNPREDICTABLE CATASTROPHIC EVENTS

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines, including business interruption, business personal property and workers' compensation. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon contingent commissions we would expect to receive from a P&C insurer that experienced significant losses, which could have a material adverse effect on our net income and financial condition.

NGES IN THE BUSINESS AND ECONOMIC ENVIRONMENT

Our business and results can be significantly affected by changes in the business and economic environment, including: changes in the level of demand for P&C insurance; price competition and variation in other terms and conditions of trade; increases in the supply of P&C insurance as a result of new capital provided by recent or future market entrants or by existing P&C insurers; volatile and unpredictable developments (including catastrophes); fluctuations in interest rates and/or price competition. The P&C insurance industry historically has experienced pricing and profitability cycles related to levels of industry underwriting capacity. As a consequence of fluctuations in pricing and P&C insurer profitability we may suffer declines in both basic and contingent commissions which could have a material adverse effect on our net income and financial condition.

FAILURE OF COMPUTER AND DATA PROCESSING SYSTEMS

Our business is dependent upon the successful and uninterrupted functioning of our computer and data processing systems. The failure of these systems could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities. If sustained or repeated, system failures could result in the loss of existing or potential business relationships or could negatively affect our financial results.

IVIDEND POLICY

We have never paid a dividend on the common shares however, on October 12, 2006 we announced our intention to pay a dividend commencing in the third quarter of 2007.

COVENANTS OF THE COMPANY

In connection with our ongoing business activities, we have made and may make commitments to lenders, bondholders and regulatory authorities that may limit our flexibility to make, or influence, certain business decisions concerning the payment of dividends or the amount of dividends, raising capital, making acquisitions, and incurring additional debt. We believe that these commitments are or would be comparable to those made by similar businesses to our own.

FINANCIAL INSTRUMENTS

We have entered into certain financial agreements that are considered to be financial instruments. Subordinated convertible debentures are considered to be compound financial instruments and accordingly, a portion of the debentures is recorded as equity in our audited financial statements. We entered into these agreements to obtain the necessary capital to fund business acquisitions. Financial instruments are subject to credit and interest rate risk as described in our audited financial statements.

CURRENT OUTLOOK

The softer pricing market that we experienced in 2006 will continue into 2007 particularly for commercial insurance. Competition among P&C insurance companies for commercial policies is expected to continue, with rates now at profitable levels. We recognize that rate increases, and consequently our commission increases, will be minimal if any for the next 12 to 24 months. The 2004 and 2005 automobile insurance reforms in Alberta are now complete. We do not expect significant rate changes beyond the normal rate of inflation.

We do not expect there to be significant changes to the financial services industry in general that would have a material impact on the growth of Bank West, WFG Agency Network, Western Life or Jennings Capital. We also anticipate that the life and health insurance industry will remain stable in the medium to long-term, especially in the communities in Western Canada where we operate.

Additional information relating to our Company, including our current Annual Information Form, is available on SEDAR at www.sedar.com.


COMMITTED TO THE WEST
financials 2006

AUDITOR'S REPORT

To the Shareholders of Western Financial Group Inc.

We have audited the consolidated balance sheets of Western Financial Group Inc. as at December 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for each of the years in the two year period ended December 31, 2006. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 16, 2007

MANAGEMENT'S RESPONSIBILITY

Management is responsible for preparing the Company's financial statements and the other information that appears in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded. PricewaterhouseCoopers LLP audits the Company's consolidated financial statements in accordance with generally accepted accounting standards in Canada which provide an independent review that the statements present fairly, in all material respects, the financial position and results of this operation.

Western Financial Group Inc. Board of Directors has an Audit Committee with non-management Directors. The Committee meets with financial management and the independent auditors to review accounting, auditing and financial reporting matters.

Scott Tannas
President and Chief Executive Officer

Catherine Rogers
Senior Vice President, Finance and Chief Financial Officer
March 16, 2007

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2006 AND 2005 *(in thousands, except for per share amounts)*	2006	2005
ASSETS		
Cash	$ 9,085	$ 10,416
Marketable securities (Note 4)	85,243	67,077
Accounts receivable (Note 5)	23,510	23,076
Prepaid expenses	7,340	5,462
Income taxes receivable	388	-
Future income taxes (Note 20)	1,271	1,411
Deferred charges (Note 6)	714	720
Other assets (Note 7)	2,235	2,451
Equity investments (Note 8)	23,501	8,251
Mortgages and loans (Note 9)	149,051	90,841
Capital assets (Note 10)	8,844	9,333
Intangible assets (Note 11)	14,175	10,497
Goodwill (Note 12)	59,565	50,164
	$ 384,922	**$ 279,699**
LIABILITIES		
Demand loans (Note 13)	$ -	$ 5,100
Accounts payable and accrued liabilities	35,944	25,099
Actuarial liabilities (Note 14)	34,754	33,507
Provision for unpaid and unreported claims (Note 14)	6,637	6,065
Deferred gain on investments	1,295	861
Income taxes payable (Note 20)	-	285
Customer deposits (Note 15)	$ 147,118	$ 95,341
Long-term debt (Note 16)	25,164	37,707
Future income taxes (Note 20)	2,790	3,015
	$ 253,702	**$ 206,980**
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	$ 110,607	$ 59,676
Other paid in capital	152	206
Contributed surplus	1,923	1,776
Retained earnings	18,538	11,061
	131,220	72,719
	$ 384,922	**$ 279,699**

APPROVED BY THE BOARD:

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (in thousands, except for per share amounts)	2006	2005
REVENUE		
Commissions and other customer income	$ 47,983	$ 43,206
Premium income	22,785	16,343
Interest income on customer loans	8,214	4,284
Investment income	3,661	2,808
	82,643	66,641
EXPENSES		
Operating expenses	51,420	43,759
Policyholder benefits	13,595	9,564
Interest income - Customer deposits	5,223	2,924
Provision for credit losses	755	401
Amortization of start up and reorganization costs	-	374
Income before the following	11,650	9,619
Income from long-term investments	2,323	1,357
Gain on sale of goodwill and capital assets	566	630
Interest and financing costs on long-term debt	(2,616)	(2,653)
Amortization of intangible assets	(439)	(329)
Amortization of capital assets	(1,506)	(1,406)
Income before income taxes	9,978	7,218
Income taxes (Note 20)	(1,990)	(2,369)
NET INCOME FOR THE YEAR	7,988	4,849
Retained earnings, beginning of year	$ 11,061	$ 6,212
Preferred share dividends	(511)	-
Retained earnings, end of year	$ 18,538	$ 11,061
Earnings per share (Note 22)		
Basic	$ 0.22	$ 0.17
Diluted	$ 0.20	$ 0.15

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (in thousands, except for per share amounts)	2006	2005
CASH PROVIDED BY (USED IN) OPERATIONS		
Net income for the year	$ 7,988	$ 4,849
Non-cash items		
Amortization of goodwill and intangible assets	439	329
Amortization of capital assets	1,506	1,406
Future income taxes	187	37
Amortization of deferred charges	-	374
Other non-cash expense	1,041	931
Non-cash dividends	(403)	(182)
Income from long term investments	(2,267)	(1,357)
Gain on sale of goodwill and capital assets	(566)	(634)
	7,925	5,753
CHANGE IN NON-CASH WORKING CAPITAL		
Accounts receivable	1,438	1,310
Prepaid expenses	(1,878)	(1,513)
Accounts payable and accrued liabilities	7,131	2,362
Actuarial liabilities	1,247	578
Provision for unreported claims	572	(840)
Amortization of deferred gain on investments	253	(1,191)
Policy loans	73	140
Income taxes	(881)	(74)
	15,880	6,525
CASH PROVIDED BY (USED IN) INVESTING		
Other assets	216	(344)
Equity Investments	(12,983)	(2,514)
Net assets acquired in business acquisitions	(11,214)	(15,097)
Proceeds on sale of capital assets	2,502	451
Capital asset purchases	(2,492)	(2,042)
Intangible asset purchases	(2)	6
Proceeds on sale of marketable securities	29,209	-
Investment in marketable securities	(46,898)	(12,091)
Mortgages and loans	(58,848)	(47,035)
	(100,510)	(78,666)
CASH PROVIDED BY (USED IN) FINANCING		
Repayments of long-term debt	(1,596)	(1,583)
Customer deposits	51,777	45,771
Subordinated debentures	-	1,000
Net proceeds from issue (repurchase) of share capital	39,026	20,090
Deferred finance charges	(297)	(111)
Dividends paid	(511)	-
	88,399	65,167
Decrease (increase) in cash for the year	3,769	(6,974)
Cash and cash equivalents, beginning of year	5,316	12,290
Cash and cash equivalents, end of year	9,085	5,316
Cash and cash equivalents are comprised as follows:		
Cash	9,085	10,416
Operating lending facility	-	(5,100)
	$ 9,085	$ 5,316

NOTE 1 OPERATIONS

Western Financial Group Inc. ("the Company") was incorporated in the province of Alberta as 674658 Alberta Inc. on November 15, 1995 and is engaged in the acquisition and operation of insurance and financial service brokerage businesses, banking activities, life and health insurance underwriting and travel agency operations in rural Western Canada. The banking activities are carried out through a federally incorporated, wholly owned subsidiary, Bank West, which received its bank charter on November 27, 2002 and commenced operations on January 30, 2003. The life and health insurance underwriting activities are carried out through Western Life Assurance Company ("Western Life") a company licensed to write all classes of life, health, and loss of employment insurance, in all provinces in Canada. Western Life is subject to the Insurance Companies Act of Canada.

NOTE 2 ACCOUNTING POLICIES

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary companies, which are wholly owned.

Accounting Estimates

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to other-than-temporary impairment of investment securities, the allowance for credit losses, allowance for policy cancellations, assessment of impairment of goodwill, the useful life of intangible assets, allocation of purchase price to goodwill and intangible assets and future income taxes. Therefore, actual results could differ from these and other estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term deposits and investments that mature within three months at the time of purchase, and the outstanding amount under the Company's operating lending facility.

MARKETABLE SECURITIES

Western Life

Bonds are carried at amortized cost. Realized gains and losses on the disposal of bonds are considered to be an adjustment of future portfolio yield and are deferred and amortized to income over the remaining term to maturity of the security sold.

Pooled funds are carried at moving average market value whereby the carrying value is adjusted towards market value at the rate of 5% per quarter. Realized gains and losses on the disposal of stocks are deferred and amortized to income at the rate of 5% per quarter.

Interest income is recognized on an accrual basis and premium/discount amortization is recorded under the effective interest method.

Bank West

The Bank purchases debt securities with the intention of holding them until maturity. Equity instruments or investments are recorded at cost and debt securities at amortized cost. When there has been a decline in value of debt or equity securities that is other than temporary, the carrying value of securities is appropriately reduced. Such reductions, if any, together with gains and losses on disposals, are included in interest income. Premiums and discounts on purchases are amortized. Interest income earned and amortization of premiums and discounts and dividends received are included in interest income.

Deferred Charges

Deferred charges include costs related to the start up of new businesses, development of new products and certain of the costs of obtaining debt financing. Amounts are being amortized on a straight-line basis commencing in the year of deferral. Financing costs are amortized over the term of the respective debt. Other deferred charges are amortized over periods from two to five years.

Equity Investments

Entities which are not controlled and over which the corporation has the ability to exercise significant influence, referred to as affiliated companies, are accounted for using the equity method. The excess of purchase price over underlying net book value of assets for equity accounted for investments is allocated to goodwill. Goodwill is not amortized, but is tested for impairment annually.

MORTGAGES AND LOANS

Western Life

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender values of the policies on which the respective loans are made.

Bank West

Current performing loans are stated at cost net of an allowance for credit losses. Loans that are considered impaired are recorded at the net present value of expected future cash flows.

Loans are considered impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collections of both principal and interest. Loans will be returned to performing status when there is reasonable assurance of collection and all delinquent principal and interest payments are brought current.

Specific allowance

A specific allowance for loss is provided when loans are considered to be impaired, which occurs when they are either more than 90 days in arrears, or there is no longer reasonable assurance of timely collection of outstanding principal and interest.

General allowance

Bank West has provided a general allowance for loan losses, which management estimates are contained within the portfolio on the balance sheet date. The general allowance is established against the loan portfolio in respect of the Bank West's core business lines where assessment of existing economic and portfolio conditions indicate that it is probable that losses have occurred,

but where such losses cannot be determined on an item-by-item basis. As Bank West has little operating history, it has utilized industry knowledge in establishing the level of general allowance. This allowance is re-assessed monthly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends and management's current assessment of factors that may have affected the condition of the portfolio.

Capital Assets

Capital assets are recorded at cost and are being amortized over their estimated useful lives on a diminishing balance basis, except for leasehold improvements which are amortized on a straight line basis, commencing in the year of acquisition up to and excluding the year of disposal, at the annual rates detailed in Note 10. In the year of acquisition, one-half of the annual amount of amortization is recorded.

Goodwill

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment on an annual basis by comparing the fair value of each reporting unit to its carrying value. When the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its fair value.

Intangible Assets

Intangible assets in respect of purchased customer contracts and related customer relationships, brands, trademarks, and distribution channels are being amortized on a straight line basis over a 30 year period. These intangible assets are considered to have a finite life, and as such, are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable. Indefinite-life intangible assets are subject to impairment tests under Canadian GAAP on an annual basis and when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value.

ACTUARIAL LIABILITIES

Western Life

Actuarial liabilities are determined by the Appointed Actuary using the Canadian Asset Liability Method and represent the amount, which, together with future policy premiums and investment income, will be sufficient to meet future benefits and expenses.

Reinsurance

Western Life follows the policy of underwriting and reinsuring contracts of insurance which, depending on the type of insurance, limits their liability to a maximum amount of $100 per life insured or $2.5 per month for any disability income claim. Western Life reflects reinsurance balances on the balance sheet and income statements on a net basis.

Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. All current new business is placed with registered reinsurers. No information has come to the management's attention indicating weakness or failure of any of its current reinsurers therefore no provision has been made in the accounts for doubtful collection.

Income Taxes

Income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rate substantially enacted when these temporary differences are anticipated to reverse is used to calculate future income taxes.

Convertible Subordinated Debentures

Convertible subordinated debentures are recorded in part as debt and in part as equity. The equity component represents the value attributed to the holder's option to convert the principal balance into common shares and is included in other paid in capital. When the debentures are converted to common shares, the equity component is reduced with a corresponding increase to share capital. The equity component of the debentures will be accreted over the term of the debentures through a charge to interest expense and an increase to the liability such that the principal amount due on maturity will be equal to the carrying amount of the debenture at that time.

Preferred Shares

Series 1 Preferred shares issued by the Company give the holder the right to require the Company to redeem the share at or after a particular date for a fixed or determinable amount, and are recorded as debt. Dividends paid and accrued on such shares are expensed and included in interest on long-term debt.

Series 2 Preferred shares issued by the Company are convertible at the holder's option at any time into common shares at a fixed conversion price of $3.60 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $3.60 conversion price. These shares have been recorded as equity. Dividends as declared are recorded against retained earnings.

Revenue Recognition

Contingent profit commissions represent amounts received from insurance companies based on volumes and loss ratios of customer insurance policies written with the respective company and are recognized in the year earned.

WFG Agency Network

Insurance commission revenue is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinable. The Company maintains an allowance for estimated policy cancellations and commission returns by applying historical policy cancellations and endorsements to the current year revenue adjusted for acquisitions and dispositions.

Bank West

The Company records interest income earned on performing loans as interest income in the financial statements. Recognition of interest income ceases when a loan is classified as impaired.

Western Life

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized,

actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Pension Plans and Other Post Retirement Benefits

Western Life has established defined contribution pension plans for eligible qualifying employees. Contributions to these defined contribution pension plans are subject to certain vesting requirements and are a set percentage of employee's annual income.

Stock-Based Compensation

The Company uses the fair-value-based method of accounting for stock-based compensation applying to options issued for years beginning in 2003. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes valuation model. This value is recorded as a charge to net income, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period.

Any consideration paid by employees and the associated contributed surplus is credited to share capital when the option is exercised.

Employee Share Ownership Plan

The matching contribution made by the Company under the employee share ownership plan is being amortized over the vesting period of the shares commencing in the month of contribution.

Interest Rate Swaps

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. The Company does not enter into derivative financial instruments for speculative or trading purposes.

Comparative Figures

Certain of the comparative figures presented have been reclassified to conform with the current year's presentation.

NOTE 3 BUSINESS ACQUISITIONS

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase.

December 31, 2006

During the year ended December 31, 2006, the Company acquired all of the outstanding shares of the following insurance brokerage businesses: Golden Eagle Agencies Ltd., 606065 Alberta Ltd., 1176496 Alberta Ltd., 1194595 Alberta Ltd., Willow Creek Insurance (1990) Ltd., and Thomsen Fisher Insurance Ltd.

December 31, 2005

During the year ended December 31, 2005, the Company acquired all of the outstanding shares of Federated Life Insurance Company of Canada and subsequently changed the name to Western Life Assurance Company. The Company also acquired all of the outstanding shares of the following insurance brokerage businesses: NHI Insurance Group Inc., Pender Island Insurance Agency Inc., LeRoy Agencies Ltd. and 538500 Alberta Ltd.

Net assets acquired in business acquisitions:	**2006**	**2005**
Cash and short term investments	$ 1,775	$ 10,639
Other investments	219	42,366
Other assets	1,519	4,573
Capital assets	536	292
Intangible assets	4,118	4,169
Goodwill	9,398	8,199
Accounts payable and accrued liabilities	(3,714)	(1,759)
Actuarial liabilities	-	(32,929)
Provision for unpaid claims	(49)	(6,905)
Corporate taxes payable	(17)	352
Future taxes payable	(796)	(2,184)
	12,989	26,813
Cash acquired	(1,775)	(10,639)
Consideration:	$ 11,214	$ 16,174

Of the total amount assigned to goodwill and intangibles, $ 357 (2005 - $ 63) is deductible for tax purposes.

NOTE 4 MARKETABLE SECURITIES

Securities are composed of Canadian Federal Government and Provincial Government treasury bills, acceptances of Canadian Schedule 1 banks and Canadian corporate term-preferred and fixed/floating-preferred shares. Securities are purchased for liquidity and longer-term investment, with the intention of holding to maturity.

2006	Within 1 year	Over 1 year	Total carrying value	Estimated market value
Fixed income securities				
Canadian government	$ 14,060	$ 47,618	$ 61,678	$ 66,579
Bankers' acceptances	9,975	-	9,975	9,974
Preferred shares	-	2,123	2,123	2,226
Other	5,145	6,322	11,467	12,118
Total	$ 29,180	$ 56,063	$ 85,243	$ 90,897

2005	Within 1 year	Over 1 year	Total carrying value	Estimated market value
Fixed income securities				
Canadian government	$ 5,022	$ 41.,679	$ 46,719	$ 45,999
Bankers' acceptances	8,236	-	8,236	8,233
Preferred shares	479	9,904	10,383	10,325
Other	-	1,739	1,739	1,762
Total	$ 13,737	$ 53,340	$ 67,077	$ 66,319

At December 31, 2006, the Bank had pledged Government of Canada Treasury Bill in the amount of $562 in support of a Clearing Settlement line of credit of $500. (2005 - $541).

NOTE 5 ACCOUNTS RECEIVABLE

The Company has recorded contingent commissions receivable of $271 (2005 - $286) with respect to policies written through Lloyds of London. These amounts may not be received for up to five years from the year in which the policy is written. Actual amounts received may vary based on actual claims made and administrative expenses incurred.

NOTE 6 DEFERRED CHARGES

2006	Cost	Accumulated Amortization	Net Book Value
Financing costs	$ 2,491	$ 1,850	$ 641
Other development costs	88	15	73
	$ 2,579	$ 1,865	$ 714

2005	Cost	Accumulated Amortization	Net Book Value
Financing costs	$ 2,283	$ 1,563	$ 720

NOTE 7 OTHER ASSETS

	2006	2005
Loan to a company controlled by the chief executive officer of the Company. Interest is repayable annually at 4% per annum. Loan is secured by 350,000 shares of the Company. Market value of the security as at December 31, 2006 was $1,418 (2005 - $861). Due September, 2007.	$ 560	$ 560
Note receivable with respect to the sale of certain insurance brokerage assets. Interest payable annually 4% per annum. Due December, 2007.	199	199
Promissory note, repayable at $5 per month including interest at 5% per annum. Secured by a general security agreement over all of the assets of Kennedy Insurance Ltd. and a guarantee from its shareholders. Due June, 2006.	-	145
Note receivable with respect to the sale of certain insurance brokerage assets. Repayable at $191 per annum including interest at 4% per annum. The promissory note is secured by a general security agreement covering all of the assets of Platinum Insurance Inc., a hypothecation of the shares of Platinum Insurance Inc., and a corporate guarantee. Due April 2015.	1,476	1,547
	$ 2,235	$ 2,451

NOTE 8 EQUITY INVESTMENTS

	2006	2005
Investment in Jennings Capital Inc, a corporation in which a director holds an interest.		
Notes receivable are non-interest bearing and due on demand. Repayment of these notes has been postponed and are subordinated to all other debt of the corporation. The Company has indicated it will not request repayment within the next fiscal year. The fair value of these notes is not determinable.	$ 1,530	$ 1,655
2,317 (2005 - 1,655) common shares representing 35.67 % (2005 - 26.61%) of the outstanding common shares.	8,443	2,132
5 preferred shares, cumulative dividends at 4% per annum.	500	500
Investment in Falkins Insurance Agencies Ltd.		
.758 common voting, .758 common non-voting and .758 preferred non-voting shares representing 20% of the outstanding shares of the corporation. The excess of $ 1,996 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.	2,561	2,308
Investment in Harvard Ventures Ltd.		
1,575 common shares representing 50% of the outstanding common shares of the corporation. An excess of $ 130 of the Company's interest in the underlying net book value of the assets exists compared to the purchase price.	1,973	1,645
Investment in Northcountry Insurance Agencies Ltd.		
2,500 common shares representing 25% of the outstanding common shares of the corporation. The excess of $ 2,072 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.	2,802	-
Investment in Hayhurst Elias Dudek Inc.		
2,835 common shares representing 25% of the outstanding common shares of the corporation. The excess of $ 5,704 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.	5,692	-
Deposits and future costs for business acquisitions that closed subsequent to year end (Note 24)	-	11
	$ 23,501	$ 8,251

NOTE 9 MORTGAGES AND LOANS

2006

	Residential mortgages - insured	Residential mortgages – uninsured	Automobile & recreational vehicle financing	Farm & commercial mortgages	Premium financing	Other loans & leases	Total
Residential	$ 11,214	$ 21,866	$ -	$ -	$ -	$ -	$ 33,080
Personal	-	-	66,589	-	5,390	14,378	86,275
Business	-	-	-	7,736	11,470	11,713	30,919
Allowance for credit losses	(18)	(124)	(712)	(58)	(84)	(227)	(1,223)
							149,051
Portion maturing in the next year based on contractual terms							(40,576)
							$ 108,475

2005

	Residential mortgages - insured	Residential mortgages – uninsured	Automobile & recreational vehicle financing	Farm & commercial mortgages	Premium financing	Other loans & leases	Total
Residential	$ 13,379	$ 17,272	$ -	$ -	$ -	$ -	$ 30,651
Personal	823	-	30,057	-	4,090	7,744	42,714
Business	-	-	-	6,608	5,702	5,826	18,136
Allowance for credit losses	(2)	(113)	(297)	(48)	(81)	(119)	(660)
							90,841
Portion maturing in the next year based on contractual terms							(27,820)
							$ 63,021

NOTE 10 CAPITAL ASSETS

2006	Rate	Cost	Accumulated Amortization	Net Book Value
Land		$ 746	$ -	$ 746
Buildings	5%	896	178	718
Leasehold Improvements	10%	3,792	1,238	2,554
Furniture and equipment	20%	3,640	1,674	1,966
Computer hardware and software	20%	6,167	3,538	2,629
Leased assets	30%	923	786	137
Automotive	30%	167	73	94
		$ 16,331	$ 7,487	$ 8,844

2005	Rate	Cost	Accumulated Amortization	Net Book Value
Land		$ 641	$ -	$ 641
Buildings	5%	2,192	348	1,844
Leasehold Improvements	10%	3,334	875	2,459
Furniture and equipment	20%	2,902	1,291	1,611
Computer hardware and software	20%	5,475	2,973	2,502
Leased assets	30%	922	723	199
Automotive	30%	161	84	77
		$ 15,627	$ 6,294	$ 9,333

NOTE 11 INTANGIBLE ASSETS

2006	Cost	Accumulated Amortization	Net Book Value	Net Additions
Brands, trade styles, distributions channels and customer contracts and relationships	$ 14,896	$1,163	$13,733	$ 4,117
Bank West Letters of Patent of Incorporation	442	-	442	-
	$ 15,338	$ 1,163	$ 14,175	$ 4,117

2005	Cost	Accumulated Amortization	Net Book Value	Net Additions
Brands, trade styles, distributions channels and customer contracts and relationships	$ 10,779	$ 724	$ 10,055	$ 4,240
Bank West Letters of Patent of Incorporation	442	-	442	-
	$ 11,221	$ 724	$ 10,497	$ 4,240

NOTE 12 GOODWILL

Balance, December 31, 2004	$ 44,394
Goodwill acquired during 2005	8,199
Goodwill disposed of during 2005	(2,429)
Balance, December 31, 2005	50,164
Goodwill acquired during 2006	9,401
Goodwill disposed of during 2006	-
Balance, December 31, 2006	$ 59,565

NOTE 13 DEMAND LOANS

	2006	2005
Investment margin loan with Jennings Capital Inc., an affiliated company. Due on demand, bearing interest at bank prime plus 1.0% per annum. The effective interest rate on this loan was 6.0% at December 31, 2005. Security provided consists of certain marketable securities with a net book value of $1,625 at December 31, 2005.	$ -	$ 1,100
Operating lending facility, authorized to a maximum of $7,500, subject to certain margin requirements, bearinginterest at bank prime plus 0.25% per annum. The effective interest rate on this loan was 5.25% at December 31, 2005. Security is as described in Note 15.	-	4,000
	$ -	$ 5,100

NOTE 14 POLICY LIABILITIES

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial reserves are adequate to pay future benefits, the actuary is required to include in each assumption a range of allowable margins prescribed by the Canadian Institute of Actuaries.

Western Life maintains margins near the middle of the allowable range. Lower margins could be justified in some circumstances, but the Company prefers to use more conservative estimates. The Company uses a higher margin for expense. In total, our margin comprises 15% (2005 – 14%) of our policy liabilities of $5.2 million. (2005 - $4.5 million).

Policy Liabilities are comprised of:

		2006		2005
Actuarial liabilities	$	34,754	$	33,507
Provision for unpaid and unreported claims		6,637		6,065
Total policy liabilities	$	41,391	$	39,572

Actuarial liabilities are comprised of the following amounts for each significant line of business:		2006		2005
Individual Life	$	29,640	$	29,756
Group Life		1,302		859
Annuities		1,329		1,149
Accident and Sickness		2,483		1,743
	$	34,754	$	33,507

The actuarial liabilities have been determined by the Appointed Actuary using accepted actuarial practice involving the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of withdrawal. The process of determining actuarial liabilities necessarily involves the risk that actual results may vary from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

Each assumption is determined based on expected experience plus a margin. The margin provides for uncertainty in establishing expected experience and to allow for possible deterioration in experience. The additional reserve resulting from using assumptions which include these margins is referred to as the provision for adverse deviations. The provision will be included in future income to the extent it is not required to cover adverse experience.

The nature and method of determining the significant assumptions made in the computation of actuarial liabilities are described below.

Mortality and morbidity rates - Estimates of future mortality and morbidity rates are based on the Company's and industry experience over extended periods.

Investment yields - Assumptions regarding future investment yields are based on current yield rates, adjusted to reflect uncertainties associated with projections of future interest rates.

Expense levels - Future expense assumptions are based on the Company's past experience and projections for the future.

Rates of withdrawal - Policyholders may lapse their policies by discontinuing premium payments or surrender their policies for the cash surrender value. Estimates of future rates of withdrawal are based on previous Company experience augmented by industry experience.

Assets supporting actuarial liabilities 2006	Bonds	Shares	Other	Total
Balance Sheet Value				
Non-participating				
Individual life	$ 26,516	$ -	$ 750	$ 27,266
Group Life	1,240	-	-	1,240
Individual Annuity	1,205	-	-	1,205
Accident & Sickness	2,341	-	-	2,341
Claim Liabilities	2,833	-	4,159	6,992
Other Including				
Capital Surplus	11,617	6,322	4,968	22,907
Total Balance Sheet Value	45,752	6,322	9,877	61,951
Total Market Value	$ 50,655	$ 6,973	$ 9,877	$ 67,505

Assets supporting actuarial liabilities 2005	Bonds	Shares	Other	Total
Balance Sheet Value				
Non-participating				
Individual life	$ 28,247	-	$ 823	$ 29,070
Group Life	1,120	-	-	1,120
Individual Annuity	1,264	-	-	1,264
Accident & Sickness	1,742	-	-	1,742
Claim Liabilities	3,308	-	3,193	6,501
Other Including				
Capital Surplus	7,755	6,431	6,685	20,871
Total Balance Sheet Value	43,436	6,431	10,701	60,568
Total Market Value	$ 45,743	$ 6,353	$ 10,701	$ 62,797

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of assets are essentially offset by changes in the fair value of actuarial liabilities.

Change in actuarial liabilities		2005		2006
Balance, beginning of period	$	33,507	$	32,896
Normal change		988		524
Change in actuarial assumptions		259		87
Balance, end of year	$	34,754	$	33,507

NOTE 15 CUSTOMER DEPOSITS

Customer deposits are comprised of guaranteed investment certificates ("GIC") denominated in Canadian currency, with fixed maturities not exceeding 5 years from date of deposit. Canada Deposit Insurance Corporation ("CDIC") insures these deposits to the extent of $100 (2005 - $100) per Canadian resident. The uninsured portion is .35% (2005 – 0.89%) of the total portfolio.

2006

Terms to maturity	1 yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Total
Businesses	$ 1,837	$ 789	$ 1,100	$ 1,094	$ 116	$ 4,936
Individuals	40,184	18,539	21,296	17,168	44,995	142,182
	$ 42,021	$ 19,328	$ 22,396	$ 18,262	$ 45,111	$ 147,118

2005

Terms to maturity	1 yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Total
Businesses	$ 3,740	$ 1,229	$ 789	$ 1,100	$ 1,183	$ 8,041
Individuals	27,108	13,559	15,084	16,948	14,601	87,300
	$ 30,848	$ 14,788	$ 15,873	$ 18,048	$ 15,784	$ 95,341

NOTE 16 LONG-TERM DEBT

	2006	2005
Bank loans provided by a Canadian chartered bank, authorized to a maximum of $30,543. Bank loans, repayable at $122 per month plus interest at the rates detailed below. Interest at bank prime rate plus .50% per annum. The effective rate of interest at December 31, 2006 was 6.50% (2005- 5.5%).	$ 1,083	$ 2,544
Bank loan with interest only payable monthly. The Company has entered into an interest rate swap agreement (Note 25), whereby the interest rate on this bank loan has been fixed at a rate of 5.705 % (2005 - 6.225%) per annum until May, 2008.	8,000	8,000
Repayment of these bank loans is dependent upon annual renewal. If the bank elects not to renew, all amounts will be repayable over two years. Collateral provided for the above bank loans, as well as the overdraft lending facility and the demand loan described in Note 13, consists of a $50 million debenture charging all of the Company's assets including a registered first charge over all real property, a general assignment of book debts, a pledge of all shares of each subsidiary excluding Bank West and Western Life Assurance Co., an unlimited guarantee from each subsidiary excluding Bank West and Western Life Assurance Co. each supported with a general security agreement and a general assignment of book debts.		
$10,974 (2005) subordinated convertible redeemable debenture, interest payable semi-annually at 9% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $2.50 per share. At any time after February 28, 2005, the Company may redeem the debentures at par if the 20 day weighted average trading price of its shares is not less than $3.10. On maturity, the Company may repay the debentures by issuing shares of the Company based on 95% of the average trading price at that time. Due February, 2007. As this debenture includes an equity component related to the holder's conversion option, a portion is recorded as other paid in capital.	-	10,961
$5,000 subordinated convertible redeemable debenture, interest payable semi-annually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.25 per share. Due January, 2010. As this debenture includes an equity component related to the holder's conversion option, a portion is recorded as other paid in capital.	4,986	4,980
$10,000 subordinated convertible redeemable debenture, interest payable semi-annually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.00 per share. At any time after March 31, 2001, the Company may redeem the debentures at par if the shares of the Company have traded at $3.90 or on maturity the Company may repay the debenture by issuing shares, provided that the ratio of earnings before interest, taxes, depreciation and amortization to the combined principal and interest payments for the quarter immediately preceding the maturity date is 1.25 to 1. Due March, 2009. As this debenture includes an equity component related to the holder's conversion option, a portion is recorded as other paid in capital.	9,977	9,967
Unsecured subordinated notes, interest payable semi-annually at 12% per annum. Redeemable by the company after March, 2010.	1,000	1,000
Finance contracts repayable at $1.6 per month including interest at 0% to 6% per annum. Security provided consists of certain automotive assets.	18	55
.1 (2005 – .2) preferred shares, Series 1, with a par value of $1.0, issued to a company controlled by a director, redeemable at par by the holder at 20% annually, cumulative dividends at 4% per annum.	100	200
	$ 25,164	$ 37,707

Estimated principal repayments of long-term debt, assuming renewal on the same or similar terms, in each of the next five years are as follows:

2007	$	5,024
2008	$	10,857
2009	$	2,857
2010	$	2,857
2011	$	2,857

NOTE 17 SHARE CAPITAL

COMMON SHARES

Authorized shares

Unlimited number of common, without nominal or par value

Unlimited number of first preferred, issuable in series

Unlimited number of second preferred

	Number		Amount
ISSUED COMMON SHARES			
Balance, December 31, 2004	20,274	$	38.818
Common shares issued for:			
Cash pursuant to stock options exercised	20		40
Cash pursuant to prospectus offering	10,350		22,253
Costs of prospectus offering (net of tax benefit of $742)			(1,435)
Balance, December 31, 2005	30,644	$	59,676
Common shares issued for:			
Cash pursuant to stock options exercised	235		565
Issued on conversion and redemption of debentures	4,390		11,028
Issued on conversion of preferred shares	41		150
Cash pursuant to prospectus offering	7,590		26,565
Costs of prospectus offering (net of tax benefit of $574)			(1,459)
Balance, December 31, 2006	42,900	$	96,525
First preferred Series 1 shares recorded as long term debt (Note 16)			
Balance, December 31, 2004	.3	$	300
Cancelled on redemption	(.1)		(100)
Balance, December 31, 2005	.2	$	200
Cancelled on redemption	(.1)		(100)
Balance, December 31, 2006	.1	$	100
First preferred Series 2 shares recorded as equity			
Balance, December 31, 2004	-	$	
Balance, December 31, 2005	-		-
Issued for cash	150		15,000
Costs of share issue (net of tax benefit of $302)			(768)
Converted to Common shares	(2)		(150)
Balance, December 31, 2006	148	$	14,082
TOTAL SHARE CAPITAL			
Balance December 31, 2005		$	59,676
Balance December 31, 2006		$	110,607

Escrowed Shares

Common shares issued as consideration for business acquisitions are subject to certain escrow provisions that restrict their trading. As at December 31, 2006, 473 (December 31, 2005 - 251) shares were being held in escrow.

NOTE 18 STOCK BASED COMPENSATION

Stock Options

The Company has a fixed stock option plan under which it may grant options to directors, officers, employees and consultants for up to 10% of the issued and outstanding shares to an aggregate maximum of 1,600 common shares. The option price is equivalent to the share market price on the date granted.

	2006		2005	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	680	$ 2.54	569	$ 2.57
Granted	73	3.02	223	2.42
Exercised	(235)	2.41	(20)	2.00
Cancelled	(5)	3.00	(92)	2.50
Outstanding, end of year	513	$ 2.65	680	$ 2.54
Exercisable, end of year	350	$ 2.62	457	$ 2.60
Available for grant, end of year	1,087		920	

The following table summarizes information about fixed stock options outstanding at December 31, 2006.

Exercise Price Range	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.00 - $ 2.99	385	2.67 years	$ 2.54	285	$ 2.53
$ 3.00 - $ 3.02	128	2.41 years	$ 3.01	65	$ 3.00
	513			350	

During the year, the Company granted 73 (2005 - 223) options to purchase common shares at an exercise price of $3.02 (2005 - $2.14 to $2.45), which was equal to or greater than the market value of the shares on the date granted. The following table summarizes information about stock options granted during the year.

Number granted	Market price	Exercise price	Fair value
73	$ 3.02	$ 3.02	$ 1.04

The Company has recorded $147 (2005 - $30) as compensation expense and contributed surplus, in respect of options vested during the year, based on a fair value determination estimated using the Black Scholes option-pricing model.

Under the fair value method, the value of stock options at the grant date that have vested during the year are estimated using the Black-Scholes option-pricing model using the following assumptions:

	2006	2005
Expected option life (years)	3-5	3-5
Risk free rate	3.53 % - 4.24 %	3.53 % - 3.91 %
Expected stock volatility	30 %	30 %
Dividend yield	0 %	0 %

Employee Share Ownership Plan

The Company participates in an Employee Share Ownership Plan which enables substantially all employees to purchase common stock of the Company. Eligible employees make personal contributions to the plan up to 5% of their earnings which are matched by the Company. Personal and Company matching contributions are used to acquire common stock in the Company at market prices. All acquisitions are for shares currently issued and there is no commitment under the plan for the Company to issue additional shares.

NOTE 19 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2006	2005
Dividends received	$ 243	$ 1,502
Interest paid	5,767	4,256
Income taxes paid	2,984	2,031
Dividends paid on preferred shares	519	12

NOTE 20 INCOME TAXES

	2006	2005
Future income taxes	$ 127	$ 37
Current income taxes	1,863	$2,332
	$ 1,990	$ 2,369

The Company's actual income tax expense differs from the expected income tax expense as follows:

	2006		2005	
	%	Amount	%	Amount
Expected income tax expense	32	$ 3,242	34	$ 2,427
Non-deductible expenses	2	174	1	76
Non-taxable income	(9)	(867)	(5)	(339)
Income tax rate and other adjustments	(5)	(559)	3	205
Actual income tax expense	20	$ 1,990	33	$ 2,369

The major components of the future income tax asset and future income tax liability using the combined federal and provincial effective tax rates at the anticipated average rate of reversal of 30% (2005 - 34%) are as follows:

Future income tax asset:	2006	2005
Capital assets	$ (50)	$ (41)
Eligible capital	8	8
Tax loss carryforwards	(843)	(1,160)
Deferred gains	-	3
Loan loss provision	(386)	(221)
	$ (1,271)	$ (1,411)

Future income tax liability:	2006	2005
Capital assets and other	$ 961	$ 720
Goodwill and intangibles	2,958	2,708
Deferred charges and share issue costs	(1,208)	(810)
Tax loss carryforwards	(266)	(89)
Allowance for credit losses	(106)	(101)
Actuarial liabilities	516	595
Deferred losses	(65)	(8)
	$ 2,790	$ 3,015

NOTE 21 EARNINGS PER SHARE

December 31, 2006	Income	Shares	Per share
Earnings per share from continuing operations			
Net income	$ 7,988		
Preferred share dividends	(511)		
Net income available to common shareholders	7,477		
Basic earnings per share	$ 7,477	33,673	$ 0.22
Effect of dilutive securities			
Stock options		86	
Convertible debentures	746	6,990	
Diluted earnings per share	$ 8,223	40,749	$ 0.20

December 31, 2005	Income	Shares	Per share
Net income	$ 4,849		
Preferred share dividends	-		
Net income available to common shareholders	4,849		
Basic earnings per share	$ 4,849	28,965	$ 0.17
Effect of dilutive securities			
Stock options	-	8	
Convertible debentures	1,079	9,742	
Diluted earnings per share	$ 5,928	38,715	$ 0.15

At December 31, 2006, Convertible redeemable series 2 preferred shares were not included in the computation of diluted earnings per share because the impact was anti-dilutive.

At December 31, 2005, non-dilutive options to purchase 542 common shares at prices ranging from $2.40 to $3.00 per share were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares for the year.

NOTE 22 COMMITMENTS

In the normal course of business Bank West issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year-end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $ 5,617 (2005 - $ 3,091).

Under the terms of the investment agreement with Hayhurst Elias Dudek Inc., and the purchase Agreement with Thomsen Fisher Insurance Ltd., additional consideration may be granted contingent on earnings levels in the future. The amount and outcome of contingent consideration cannot be reasonably estimated and has not been recognized in the financial statements.

Under the terms of property leases expiring between 2007 and 2011, the Company is committed to the following annual lease payments:

2007	$	2,386
2008	$	2,269
2009	$	1,865
2010	$	1,659
2011	$	1,449

NOTE 23 RELATED PARTY TRANSACTIONS

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

- Interest of $8 (2005 - $8) was paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for the investment margin loan described in Note 13.
- Dividends income on preferred shares of $396 (2005 - $182) and income from equity investments of $1,492 (2005 - $976) were accrued with respect to our investment in Jennings Capital Inc.
- Underwriting fees of $909 (2005 - nil) were paid to Jennings Capital Inc., in underwriters' fees in connection with their participation in our CommonShare Offering.
- Commission income of $13 (2005 - $2) and fees for computer service of $70 (2005 - $10) were accrued for services provided to Jennings Capital Inc.
- Dividends on preferred shares in the amount of $5 (2005 - $8) were accrued to a company controlled by a director.
- The Western Mutual Fund Company is able to share certain officers and staff with Jennings Capital Inc. It has accrued nil (2005- $119) in shared costs which is payable to Jennings Capital Inc.

Other transactions and balances outstanding are included in Other Assets as disclosed in Note 7.

NOTE 24 SUBSEQUENT EVENTS

In 2006 the company entered into memorandums of understanding and term sheets with respect to the acquisition of Insurance brokerage businesses of the Sawchuk Group, with three offices in Dawson Creek, four offices in Fort St. John, and one office in Fort Nelson, as well as its Sawchuk Financial Services division located in Dawson Creek. The Company also acquired Silver Star Brokers in Vernon, B.C., and the remaining 75% of Northcountry Insurance Agencies Ltd. with locations in 100 Mile House, Burns Lake, Fraser Lake, Houston, Smithers, Vanderhoof and Williams Lake, B.C. All of these acquisitions were finalized in January of 2007. These acquisitions were financed by utilizing $20.0 million of our senior credit facility along with cash from our financing in the fourth quarter.

NOTE 25 FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash, accounts receivable, demand loans, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of marketable securities has been estimated based on market values of the securities as at December 31. (Note 4)

The fair value of fixed rate mortgages and loans has been estimated by discounting the expected future cash flows at market rates for loans with similar terms and risks. For floating rates loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. Fair value of mortgages and loans as at December 31, 2006 is estimated to be $ 153,031 (2005 - $91,071).

The fair value of customer deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks and is estimated to be $143,674 as at December 31, 2006 (2005 - $92,822).

Management considers that no events have occurred subsequent to the arrangement of the credit agreement with its bank that would indicate that the fair value of bank loans differs substantially from their carrying value.

The fair values of the $5,000 and $10,000 convertible debentures are not determinable due to the existence of business development agreements with the holders that would have the effect of reducing the effective rate.

The fair value of actuarial liabilities and provisions for unpaid and unreported claims are as disclosed in Note 14.

The fair value of the preferred shares is not determinable as there is no active market for these instruments.

CREDIT RISK

The Company is exposed to credit risk with respect to its marketable securities, accounts receivable and mortgages and loans receivable.

Restricting both the type and the term of investments mitigates marketable securities risk. The Company only invests in Canadian corporations and institutions with large capitalization and acceptable liquidity to reduce credit risk.

Accounts receivable risk is minimized by the Company's large customer base, which covers all consumer and business sectors in British Columbia, Saskatchewan and Alberta. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

Credit risk with respect to mortgages and loans is mitigated through conservative underwriting policies and charges against real property that reduce the Company's risk exposure on these loans. Certain of the residential mortgages are insured through Canada Mortgage and Housing Corporation.

INTEREST RATE RISK

The Company entered into an interest rate swap agreement, expiring in May 2008, to manage the interest rate risk on a portion of its bank debt. Under the terms of the agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 5.705% (2005 - 6.225%) per annum. The counter-party to this agreement is a large Canadian financial institution, which presents minimal credit risk. The actual amount of gain or loss on this hedge will fluctuate with current interest rates. As at December 31, 2006 the actual interest rate on the underlying debt instrument was 5.705%(2005 – 4.627%) per annum. Assuming this interest rate was in effect for the term of the agreement, the Company would recognize an annual loss of $42 as interest expense.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its bank term loans payable. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of Bank West that are scheduled to mature or re-price on particular dates.

December 31, 2006	Floating Rate	Less than 3 months	3 months - 1 year	Total within 1 year	Over 1 year to 5 years	Non-interest rate sensitive	Total
Assets:							
Cash Resources	$ 2,549	$ -	$ -	$ 2,549	$ -	$ -	$ 2,549
Securities	-	14,435	2,524	16,959	-	-	16,959
Loans	11,630	7,082	21,764	40,476	108,949	(1,223)	148,202
Other assets	-	-	-	-	-	5,118	5,118
Total	$ 14,179	$ 21,517	$ 24,288	$ 59,984	$ 108,949	$ 3,895	$ 172,828
Liabilities & Equity:							
Deposits	$ -	$ 13,832	$ 27,983	$ 41,815	$ 105,097	$ -	$ 146,912
Other Liabilities	-	-	-	-	-	5,840	5,840
Shareholder's Equity	-		-	-	-	20,075	20,075
Total	$ -	$ 13,832	$ 27,983	$ 41,815	$ 105,097	$ 25,915	$ 172,827
Interest-rate Sensitive Gap	14,179	7,685	(3,695)	18,169	3,852	(22,020)	
Cumulative Gap	14,179	21,863	18,169	-	22,020	1	
Cumulative gap as a percentage of total assets	8%	12%	10%		13%		

December 31, 2005	Floating Rate	Less than 3 months	3 months - 1 year	Total within 1 year	Over 1 year to 5 years	Non-interest rate sensitive	Total
Assets:							
Cash Resources	$ 3,884	$ -	$ -	$ 3,884	$ -	$ -	$ 3,884
Securities	-	5,512	1,857	7,369	1,720	96	9,185
Loans	9,329	6,516	11,959	27,804	63,730	(658)	90,875
Other assets	-	-	-	-	-	4,961	4,961
Total	$ 13,213	$ 12,028	$ 13,816	$ 39,057	$ 65,450	$ 4,399	$ 108,906
Liabilities & Equity:							
Deposits	$ -	$ 8,406	$ 22,012	$ 30,418	$ 64,493	$ -	$ 94,911
Other Liabilities	-	-	-	-	-	2,167	2,167
Shareholder's Equity	-	-	-	-	-	11,827	11,827
Total	$ -	$ 8,406	$ 22,012	$ 30,418	$ 64,493	$ 13,995	$ 108,906
Interest-rate Sensitive Gap	13,213	3,622	(8,196)	8,639	956	(9,595)	
Cumulative Gap	13,213	16,835	8,639	-	9,595		
Cumulative gap as a percentage of total assets	12%	15%	8%		9%		

NOTE 26 SEGMENTED INFORMATION

The Company has four reportable segments: insurance brokerage, banking services, life insurance, and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through WFG Agency Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through Bank West. The life segment offers a range of disability products along with group life and health through WFG Agency Network and other distribution channels.

The results of these business segments are based on the internal financial reporting systems of the Company. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

Management monitors the financial performance of WFG Agency Network based on operating income and customer accounts receivable. The operations of Bank West, and Western Life are monitored based on net income before income tax; the financial position is monitored based on net assets used in that segment as reported in the financial statements of Bank West and Western Life.

Because of the integrated nature of the Company's operations, all other assets, including intangibles and goodwill, are managed and reported at a corporate level. Goodwill is, however, allocated to reporting units within each segment for purposes of impairment testing. All amortization expense and interest on long term debt is recorded as a corporate expense.

2006

Revenue	Bank West	(1)	Western Life Assurance	(1)	WFG Agency Network	(1)	Corporate and all other	(1)	Total
Commission and Other Customer Income	$ -	$ -	$ 72	$ -	$ 46,992	$ (348)	$ 1,616	$ (349)	$ 47,983
Premium Income	-	-	23,562	(777)	-	-	-	-	22,785
Interest Income and Customer Loans	8,214	-	-	-	-	-	-	-	8,214
Loan interest and investment income	-	-	2,531	298	30	-	802	-	3,661
Total revenue	8,214		26,165	(479)	47,022	(348)	2,418	(349)	82,643
Expenses									
Operating Expenses	(2,102)	84	(9,906)	396	(32,715)	349	(8,059)	533	(51,420)
Policyholder Benefits	-	-	(13,595)	-	-	-	-	-	(13,595)
Interest expense – Deposits and Loans	(5,223)	-	-	-	-	-	-	-	(5,223)
Provision for credit losses	(755)	-	-	-	-	-	-	-	(755)
Operating income	134	84	2,664	(83)	14,307	1	(5,641)	184	11,650
Income from long-term investments	-	-	-	-	-	-	2,323	-	2,323
Gain on sale of goodwill and capital assets	-	-	298	(298)	-	-	488	78	566
Amortization of capital assets	(51)	-	(122)	-	(641)	-	(692)	-	(1,506)
Amortization of intangible assets	-	-	-	-	-	-	(439)	-	(439)
Interest and financing costs on long-term debt	-	-	(10)	-	-	-	(2,606)	-	(2,616)
	$ 83	$ 84	$ 2,830	$ (381)	$ 13,666	$ 1	$ (6,567)	$ 262	$ 9,978
Total assets	$ 172,714	$ -	$ 62,913	$ -	$ 45,974	$ -	$ 103,321	$ -	$ 384,922
Goodwill	$ -	$ -	$ 5,161	$ -	$ 53,624	$ -	$ 780	$ -	$ 59,565

2005

Revenue	Bank West	(1)	Western Life Assurance	(1)	WFG Agency Network	(1)	Corporate and all other	(1)	Total
Commission and Other Customer Income	$ -	$ -	$ 41	$ -	$ 41,651	$(136)	$ 1,907	$ (257)	$ 43,206
Premium Income	-	-	16,745	(402)	-	-	-	-	16,343
Interest Income and Customer Loans	4,284	-	-	-	-	-	-	-	4,284
Loan interest and investment income	-	-	2,435	(78)	-	-	494	(43)	2,808
Total revenue	4,284		19,221	(480)	41,651	(136)	2,401	(300)	66,641
Operating Expenses	(1,623)	58	(7,093)	288	(27,742)	603	(8,250)	-	(43,759)
Policyholder Benefits	-	-	(9,564)	-	-	-	-	-	(9,564)
Interest expense – Deposits and Loans	(2,924)	-	-	-	-	-	-	-	(2,924)
Provision for credit losses	(401)	-	-	-	-	-	-	-	(401)
Amortization of Startup and Reorganization Costs	(288)	-	-	-	-	-	(86)	-	(374)
Operating income	(952)	58	2,564	(192)	13,909	467	(5,935)	(300)	9,619
Income from long-term investments	-	-	-	-	-	-	1,357	-	1,357
Gain on sale of goodwill and capital assets	-	-	-	-	-	-	630	-	630
Amortization of capital assets	(49)	-	(122)	-	-	-	(1,235)	-	(1,406)
Amortization of intangible assets	-	-	-	-	-	-	(329)	-	(329)
Interest and financing costs on long-term debt	-	-	(10)	-	-	-	(2,643)	-	(2,653)
	$ (1,001)	$ 58	$ 2,432	$ (192)	$ 13,909	$ 467	$ (8,155)	$ (300)	$ 7,218
Total assets	$ 108,906	$ -	$ 60,568	$ -	$ 13,991	$ -	$ 96,234	$ -	$ 279,699
Goodwill	$ -	$ -	$ 4,942	$ -	$ 44,442	$ -	$ 780	$ -	$ 50,164

Note
(1) Inter-segment eliminations

During 2006, two companies individually comprised 22.1%, and 16.3%, of total commissions earned in the WFG Agency Network segments.

During 2005, two companies individually comprised 24%, and 18%, of total commissions earned in the WFG Agency Network segments.

NOTE 27 CONTINGENCIES

The Company occasionally is named as a party in claims and legal proceedings in the normal course of business. Although there can be no assurance that any particular claim will be resolved in the Company's favor, the Company having regard to insurance available to it, does not expect that the outcome of claims will have a materially adverse effect on the Company as a whole.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

JIM DINNING [1,2]
Chairman of the Board of Directors
Calgary, Alberta

BILL YUILL [2]
Medincine Hat, Alberta
Vice-Chairman of
the Board of Directors

SCOTT A. TANNAS
High River, Alberta

CATHERINE A. ROGERS
Corporate Secretary
High River, Alberta

THOMAS C . DUTTON
High River, Alberta

GABOR JELINEK [2]
Montreal, Quebec

ROBERT G. JENNINGS
Calgary, Alberta

GREGG J. SPEIRS [1]
Calgary, Alberta

DIANE BRICKNER [1]
Edmonton, Alberta

PHILIP L. WEBSTER [1]
Montreal, Quebec

1 Member of the Audit Committee
2 Member of the Compensation Committee

KEY PERSONNEL AT WESTERN FINANCIAL GROUP, HEAD OFFICE

SCOTT A. TANNAS
President and Chief
Executive Officer

CATHERINE A. ROGERS
Executive Vice President
and Chief Financial Officer

THOMAS C. DUTTON
Executive Vice President

LANA J. WOOD
President, WFG Agency Network

DOUG FOSTER
President, Bank West

BRUCE RATZLAFF
President, Western Life Assurance

SOLICITORS

MACLEOD DIXON LLP
Calgary, Alberta

Some of our staff from Corporate Finance and Compliance, Human Resources, Agency Network, Regional Accounting, IT and Infrastructure, and Reception and Office Administration.

TRANSFER AGENT

COMPUTERSHARE INVESTOR SERVICES INC.
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers, LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

THE TORONTO STOCK EXCHANGE
Trading Symbol: WES

Notice of the Annual General Meeting – the Annual General Meeting of the Shareholders of Western Financial Group will be held on Thursday, May 10, 2007 at 3:30 PM at The Heritage Inn 1104 - 11th Avenue, High River, Alberta. Shareholders are encouraged to attend. Others interested in the affairs of the Company are welcome to attend.

CORPORATE HEADQUARTERS

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